



COMMONWEALTH OF PENNSYLVANIA

August 27, 2021

E-FILED

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Pittsburgh Water and Sewer Authority 2021 Rate Filing / Docket Nos. R-2021-3024773 (water), R-2021-3024774 (wastewater); R-2021-3024779 (stormwater)

Dear Secretary Chiavetta:

The Pennsylvania Public Utility Commission's Implementation Order at *Electronic Access to Pre-Served Testimony*, Docket No. M-2012-2331973, requires that all testimony furnished to the court reporter during a proceeding must subsequently be provided to the Secretary's Bureau.

As such, per ALJ Vero's Order dated August 17th, this letter will confirm that the Office of Small Business Advocate ("OSBA") has filed the Direct Testimony of Brian Kalcic, labeled OSBA Statement No. 1, the Rebuttal Testimony and Exhibits of Brian Kalcic, labeled OSBA Statement No. 1-R and the Surrebuttal Testimony and Exhibits of Brian Kalcic labeled OSBA Statement No. 1-S on behalf of the OSBA, in the above-captioned proceeding.

All known parties were previously served with the aforementioned Testimony. If you have any questions, please contact me.

Sincerely,

/s/ Erin K. Fure

Erin K. Fure
Assistant Small Business Advocate
Attorney ID No. 312245

Enclosures

cc: Brian Kalcic
Parties of Record (Cover Letter and Certificate of Service Only)



COMMONWEALTH OF PENNSYLVANIA

July 8, 2021

The Honorable Eranda Vero
Administrative Law Judge
Pennsylvania Public Utility Commission
Suite 4063, 801 Market Street
Philadelphia, PA 19107

Re: Pittsburgh Water and Sewer Authority 2021 Rate Filing / Docket Nos. R-2021-3024773 (water), R-2021-3024774 (wastewater); R-2021-3024779 (stormwater)

Dear Judge Vero:

Enclosed please find the Direct Testimony and Exhibit of Brian Kalcic, labeled OSBA Statement No. 1, on behalf of the Office of Small Business Advocate (“OSBA”), in the above-captioned proceeding.

As evidenced by the enclosed Certificate of Service, all known parties will be served, as indicated.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Erin K. Fure

Erin K. Fure
Assistant Small Business Advocate
Attorney ID No. 312245

Enclosures

cc: PA PUC Secretary Rosemary Chiavetta (Cover Letter & Certificate of Service only)
Brian Kalcic
Parties of Record

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION :
: **Docket No. R-2021-3024773**
: **Docket No. R-2021-3024774**
: **Docket No. R-2021-3024779**
: **v.** :
: **PITTSBURGH WATER AND SEWER AUTHORITY** :

Direct Testimony and Exhibit of

BRIAN KALCIC

On Behalf of the

Pennsylvania Office of Small Business Advocate

Topics:

**Class Cost of Service
Revenue Allocation
Indexing Miscellaneous Service Charges**

Date Served: July 8, 2021

Date Submitted for the Record: _____

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I. QUALIFICATIONS AND OVERVIEW

Q. Please state your name and business address.

A. Brian Kalcic, 225 S. Meramec Avenue, Suite 720, St. Louis, Missouri 63105.

Q. What is your occupation?

A. I am an economist and consultant in the field of public utility regulation, and principal of Excel Consulting. My qualifications are described in the Appendix to this testimony.

Q. On whose behalf are you testifying in this case?

A. I am testifying on behalf of the Office of Small Business Advocate (“OSBA”), which is representing the small business customers served by Pittsburgh Water and Sewer Authority (“PWSA” or the “Authority”).

Q. What is the subject of your testimony?

A. OSBA requested that I review PWSA’s class cost of service studies and revenue allocation proposals for water, wastewater conveyance (“wastewater”), and stormwater service customers, and sponsor changes to such proposals, where appropriate. In addition, I will address PWSA’s proposal to index miscellaneous service charges for inflation between base rate case proceedings.

Q. Do you have any preliminary comments?

1 Yes. I wish to note at the outset that my cost of service and revenue allocation
2 recommendations and schedules reflect PWSA's full rate request. Any such
3 reference is intended for comparison purposes only and should not be construed as
4 a recommendation by the OSBA that the Commission grant PWSA's request in
5 whole or in part.

6

7 **Q. How is your testimony organized?**

8 A. My direct testimony is organized as follows. Section I of my testimony contains
9 my qualifications and an overview of my testimony. In Section II, I will i) critique
10 PWSA's water cost-of-service study ("WCOSS"), ii) discuss my related cost-of-
11 service recommendations, iii) review PWSA's proposed class revenue allocation for
12 water service, and iv) sponsor the OSBA's recommended revenue allocation.
13 Sections III and IV will address the same topics as Section II but with respect to
14 PWSA's wastewater ("WWCOSS") and stormwater ("SWCOSS") service,
15 respectively. Finally, Section V examines PWSA's proposal to automatically
16 increase the Miscellaneous Charges. Fees and Penalties contained in its water and
17 wastewater tariffs each year to reflect the annual change in the Consumer Price
18 Index ("CPI").

19

20 **Q. Please summarize your primary recommendations.**

21 A. Based upon my review of PWSA's filing and interrogatory responses, I recommend
22 that the Commission:

23

Direct Testimony of Brian Kalcic

- 1 • reject the Authority’s WCOSS since it does not properly allocate the
- 2 Authority’s claimed water service revenue requirement to customer classes;
- 3 • adopt the OSBA’s recommended modifications to PWSA’s WCOSS;
- 4 • reject the Authority’s WWCROSS since it also fails to allocate costs to
- 5 customer classes in an appropriate manner;
- 6 • adopt the OSBA’s recommended modifications to PWSA’s WWCROSS;
- 7 • adopt the OSBA’s recommendations regarding revisions to PWSA’s future
- 8 WWCROSSs;
- 9 • reject the Authority’s SWCOSS since it does not properly allocate the
- 10 Authority’s claimed stormwater service revenue requirement to customer
- 11 classes;
- 12 • adopt the OSBA’s recommended modifications to PWSA’s SWCOSS;
- 13 • adopt the OSBA’s recommended class revenue allocations for water and
- 14 wastewater service;
- 15 • adopt the OSBA’s recommended scaleback proposals to determine final
- 16 class increases for water and wastewater service;
- 17 • adopt PWSA’s proposed stormwater rate design; and
- 18 • reject PWSA’s existing tariff provisions that permit the Authority to index
- 19 miscellaneous service charges for inflation between base rate case
- 20 proceedings.

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22 The specific details associated with my recommendations are discussed below.

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II. WATER SERVICE

A. WCOSS

Q. Mr. Kalcic, what type of WCOSS did PWSA sponsor in this proceeding?

A. PWSA witness Harold J. Smith submitted a class cost-of-service analysis (summarized in Exhibits HJS-1W to HJS-19W) for water service utilizing the Base Extra-Capacity (“BEC”) cost methodology.

Q. Did PWSA also submit separate class cost-of-service analyses for the Authority’s wastewater and stormwater operations?

A. Yes. I will discuss the Authority’s WWCOSS and SWCOSS later in my testimony.

Q. Please summarize the major components of the BEC cost methodology that is used in the Authority’s WCOSS.

A. In general, the BEC methodology consists of three major steps. First, the utility’s system-wide revenue requirement is functionalized, i.e., assigned to several functional service categories including supply, treatment, storage, transmission, distribution, meters, services, billing and fire protection. Next, the utility’s functionalized costs are *classified* (or split) into cost categories, namely: 1) base costs; 2) extra capacity costs (which consist of maximum day and maximum hour cost components); 3) customer costs; and 4) fire protection costs. Finally, each

1 classified cost category is *allocated* to rate classes in accordance with a factor that
2 reflects relative cost responsibility.

3 The BEC functionalization, classification and allocation steps combine to
4 produce a measure of total cost of service, by rate class. By comparing allocated
5 cost responsibility to actual revenue levels, one can determine whether a given rate
6 class is contributing above or below its cost-of-service indications.

7

8 **Q. Please explain the difference between base, maximum day and maximum hour**
9 **costs in the BEC cost methodology.**

10 A. Base costs consist of all costs incurred by the utility in order to satisfy demand (i.e.,
11 supply water) under average load conditions. Maximum day costs consist of the
12 additional costs incurred by the utility in order to be able supply water under system
13 peak (or maximum) day load conditions. Finally, maximum hour costs consist of
14 the additional costs incurred by the utility in order to be able supply water during
15 maximum hourly load conditions.

16

17 **Q. How does the BEC cost methodology classify costs between the base and extra**
18 **capacity functions?**

19 A. The BEC methodology uses *system* maximum day and maximum hour ratios to
20 determine the level of costs that are functionalized as base-, maximum day- and
21 maximum hour-related in the WCOSS. All else equal, the greater the level of usage
22 on the system maximum day and in the system maximum hour, compared to the
23 level of average daily usage level on the system over the test year, the greater the

1 amount of costs deemed to be (i.e., classified as) either maximum day and/or
2 maximum hour related, as opposed to base (or average day) related.

3

4 **Q. How are base, maximum day and maximum hour costs allocated to rate classes**
5 **under the BEC methodology?**

6 A. Base costs are allocated to classes on the basis class usage levels, while maximum
7 day and maximum hours costs are allocated to classes on the basis of *excess* class
8 demand (or usage) under maximum day and maximum hours conditions,
9 respectively.

10

11 **Q. What rate classes are included in the Authority's WCOSS?**

12 A. The study allocates functionalized costs to following ten customer classes: a)
13 Residential; b) Residential Low-Income (i.e., CAP customers); c) Commercial; d)
14 Industrial; e) Health or Education ("H&E"); f) Municipal – Metered; g) Municipal –
15 Unmetered; h) Private Fire Service; i) Public Fire Service; and j) Wholesale.

16

17 **Q. Mr. Kalcic, based upon your review, do you agree with how the Authority**
18 **implemented the BEC cost methodology in its WCOSS in this case?**

19 A. No. As discussed below, I have identified a number of deficiencies in the
20 Authority's WCOSS.

21

22 *PWSA-Owned Service Lines*

23 **Q. Please discuss your first area of disagreement with the Authority's WCOSS.**

1 A. Upon review of PWSA's WCOSS, it is apparent that the study does not assign any
2 costs to the service line function.¹ Instead, such costs are aggregated with
3 distribution mains and included in PWSA's total functionalized distribution costs.
4

5 **Q. What is the consequence of failing to assign service line costs to a separate**
6 **service function in PWSA's WCOSS?**

7 A. Such action results in a misclassification of service line costs as distribution-related
8 (at the classification stage of the BEC methodology). In turn, such misclassification
9 results in a misallocation of costs to customer classes (during the final allocation
10 stage of the BEC methodology).
11

12 **Q. Please explain.**

13 A. In the BEC methodology, distribution costs are classified as base, maximum day or
14 maximum hours related, and subsequently allocated to classes based on class usage,
15 maximum day, and maximum hour peaking factors, respectively. On the other
16 hand, service line costs are classified as customer-related and allocated to classes
17 based on the weighted-average cost of the service lines used by each class.

18 Since the allocation factors used to allocate base and extra-capacity (i.e.,
19 distribution) costs are vastly different from those used to allocate customer (i.e.,
20 service line) costs, PWSA's failure to assign service line costs to a separate service
21 function will necessarily mis-allocate service line costs to customer classes.
22

¹ See Exhibit HJS-4W.

1 **Q. Is there an additional consideration that is relevant here?**

2 A. Yes. Service lines consist of two components: 1) the utility-owned portion of the
3 line that runs from the water main to the shut-off valve (i.e., “curb stop”); and 2) the
4 customer-owned portion of the line that runs from the curb stop to the meter.

5 Generally, only the cost of the utility-owned portion of service lines is included in a
6 utility’s revenue requirement. However, in this instance, PWSA does not own any
7 portion of the service lines used by non-residential customers. Accordingly, all
8 service line-related costs on PWSA’s system should be allocated to the Authority’s
9 residential classes.

10

11 **Q. Does PWSA’s WCOSS allocate all service line costs to the residential classes?**

12 A. No. Such costs are included in the distribution function, and are subsequently
13 allocated to all customer classes.

14

15 **Q. Have you rerun the Authority’s WCOSS to allocate service line costs to the
16 Authority’s residential classes?**

17 A. Yes, I have. PWSA provided the current book value of PWSA-owned service lines
18 in its supplemental response to OSBA-II-5. I used the net book value of the service
19 lines that are not related to its lead service line replacement (“LSLR”) program to
20 breakout service lines from the asset value of distribution mains shown in Exhibit
21 HJS-2W. As a result, a portion of PWSA’s total claimed water debt service is
22 subsequently assigned to the service (rather than distribution) function, and the

1 service-related portion of the Authority’s claimed water service revenue
2 requirement can be directly assigned to the residential classes.

3 Column 2 of Schedule BK-1W shows the isolated impact of breaking out
4 service lines on PWSA’s unadjusted class cost-of-service results.

5

6 *LSLR Program Costs*

7 **Q. Please discuss your next area of disagreement with the Authority’s WCOSS.**

8 A. PWSA continues to implement its lead service line replacement (“LSLR”) program.
9 As in the past, PWSA proposes to fund the program largely through capital
10 financing sources.

11

12 **Q. How does the LSLR program impact the Authority’s proposed FPFTY 2022
13 revenue requirement?**

14 A. The impact of the LSLR program on the Authority’s claimed FPFTY 2022 revenue
15 requirement is approximately \$6.1 million, which consists of (i) \$4.3 million in
16 principal and interest on existing debt, and (ii) \$1.8 million of future debt service
17 associated with ongoing LSLR-related capital projects.²

18

19 **Q. How does PWSA allocate its proposed FPFTY 2022 LSLR program costs in its
20 WCOSS?**

21 A. The Authority’s claimed LSLR costs are included in the \$52.1 million of debt
22 service costs shown in Exhibit HJS-2W. As a result, LSLR program costs are

² See PWSA’s response to OSBA-I-10.

1 assigned to all water service function and subsequently allocated to all customer
2 classes based on the classification factors used for each functional cost category.

3

4 **Q. Did the OSBA previously advocate for non-residential customers to be eligible
5 for PWSA's LSLR program?**

6 A. Yes, in the Authority's Stage 1 Implementation or Compliance Plan proceeding at
7 Docket Nos. M-2018-2640802 and M-2018-2640803. PWSA opposed the OSBA's
8 proposal at that time, and the Commission ruled in favor of PWSA's position. As a
9 result, PWSA's LSLRP has historically been limited to residential customers.

10

11 **Q. Has PWSA recently changed its policy regarding eligibility for its LSLR
12 program?**

13 A. Yes. Counsel advises that PWSA recently received approval to amend its Lead
14 Infrastructure Plan as part of its Stage 1 Compliance Plan. Counsel further advises
15 that PWSA submitted Tariff Supplement No. 6 to Tariff Water – Pa. P.U.C. No. 1,
16 effective April 5, 2021, that permits replacement of non-residential lead service
17 lines in conjunction with the Authority's small diameter water main replacement
18 program.

19

20 **Q. Since non-residential customers are now eligibility for the Authority's LSLR
21 program, do you agree with PWSA that LSLR program costs should be
22 allocated to all customer classes?**

1 A. Yes. At the same time, however, I do not agree with the previously described
2 manner in which PWSA allocates such costs to classes in its WCOSS.

3

4 **Q. How should LSLR costs be allocated to customer classes?**

5 A. In a typical implementation of the BEC cost methodology, LSLR costs would be
6 assigned to the service function and allocated to classes based on the weighted-
7 average cost of the service lines used by each class. In particular, as lead service
8 lines were replaced, the replacement costs would become embedded in the
9 weighted-average cost of class service lines, with the result that the BEC
10 methodology would effectively assign cost responsibility for lead service lines
11 replacements to classes in proportion to the number of replacements occurring
12 within each class over time.

13

14 **Q. Do you recommend that PWSA's LSLR costs be allocated to classes on the**
15 **basis of the weighted average cost of class service lines?**

16 A. No. Since PWSA does not include any portion of the service lines used by non-
17 residential customers in its claimed revenue requirement (except, perhaps, for the
18 cost associated with any non-residential LSL replacements that may be expected to
19 occur in the future test year), such an allocation methodology would fail to assign
20 any LSLR costs to non-residential customers.

21

22 **Q. What allocation methodology do you recommend?**

1 A. I recommend that the cost of PWSA’s LSLR program be allocated to classes on the
2 basis of equivalent meters, which would act as a proxy for an equivalent service
3 lines allocator in PWSA’s WCOSS.

4

5 **Q. Have you rerun the Authority’s WCOSS to allocate LSLR costs to all classes**
6 **on the basis of equivalent meters?**

7 A. Yes, I have.

8

9 *BDP-CAP Program Costs*

10 **Q. Please discuss your next area of disagreement with the Authority’s WCOSS.**

11 A. In January 2018, the Authority implemented a Billing Discount or Customer
12 Assistance Program (“BDP-CAP”) for low-income residential customers that
13 provided for a 50% discount off the Authority’s otherwise applicable residential
14 water (and wastewater) customer charges. In the first year of operation, PWSA’s
15 BDP-CAP program provided bill discounts totaling \$149,345.³

16 Since that time, the Authority has increased the discounts provided by its
17 BDP-CAP program, and is proposing further enhancements to the program in this
18 proceeding.⁴ As proposed, the costs of the program would consist of: 1) budgeted
19 administrative costs in the amount of \$304,800 per year;⁵ 2) ratepayer funded
20 Hardship Grant Program costs in the amount of \$100,000;⁶ and 3) aggregate

³ See PWSA’s response to OSBA-II-4.

⁴ See PWSA Statement No. 6 at pages 26-27.

⁵ See PWSA’s response to OSBA-I-9.

⁶ See PWSA’s response to OSBA-III-6.

1 foregone revenues in 2022 of approximately \$2.3 million.⁷ In all cases, the
2 associated BDP-CAP costs are allocated to, and recovered from, both residential
3 and non-residential customer classes in the Authority's water, wastewater and
4 stormwater cost-of-service studies.

5
6 **Q. Has the Commission previously approved recovering the Authority's BDP-
7 CAP program costs from non-residential customers?**

8 A. No. Counsel advises that the Commission's jurisdiction over utility services
9 provided by cities of the second class, such as PWSA, became effective on April 1,
10 2018. Since that time, PWSA has concluded two base rate proceedings via black
11 box settlements that deferred resolution of the issue of universal service cost
12 recovery to a future proceeding.

13
14 **Q. Do you agree that BDP-CAP costs should be recovered from non-residential
15 customer classes?**

16 A. No. I am advised by Counsel that the Commission has had a long-standing policy
17 that directs utilities to recover CAP-related costs solely from residential customers.

18 As evidence of that policy, Counsel advises me of the following:

- 19 1. The Commission has specifically declined to allocate universal service
20 costs to non-residential customers in numerous prior gas proceedings,
21 including the following: (a) Valley Energy, Inc. at Docket No. R-
22 00049345; (b) Equitable Gas Company at Docket No. P-00052192;
23 and (c) PPL Gas Utilities Corporation at Docket No. R-00061398;
24

⁷ See Exhibits HJS-10W, HJS-9WW and HJS-5SW.

- 1 2. The Commission has also declined to allocate universal service costs
2 to non-residential customers in numerous prior electric proceedings,
3 including the following: (a) PPL Electric Utilities Corporation at
4 Docket No. R-00049255, and (b) Metropolitan Edison Company and
5 Pennsylvania Electric Company at Docket Nos. R-00061366 and R-
6 00061367;
7
8 3. The OCA appealed the Commission’s decision in the Metropolitan
9 Edison Company and Pennsylvania Electric Company case to the
10 Commonwealth Court. The Commonwealth Court affirmed the
11 Commission’s decision with regard to allocating universal service
12 costs solely to the residential class. *Popowsky v. Pennsylvania Public*
13 *Utility Commission*, 960 A. 2d 189 (Pa. Cmwlth. 2008); and
14
15 4. Furthermore, in the Customer Assistance Programs: Funding Levels
16 and Cost Recovery Mechanisms Final Investigatory Order, Docket No.
17 M-00051923 (Order entered December 18, 2006), the Commission
18 decided it would continue its then current policy of allocating CAP
19 costs only to residential customers, in that only residential customers
20 are eligible for universal service programs. Specifically, the
21 Commission stated: “After careful consideration of the comments and
22 the arguments presented, the Commission will continue its current
23 policy of allocating CAP costs to the only customer class whose
24 members are eligible for the program – residential customers. The
25 Commission believes that we should not initiate a policy change that
26 could have a detrimental impact on economic development and the
27 climate for business and jobs within the Commonwealth.”
28

29 **Q. Has the Commission recently considered revisiting its position regarding the**
30 **recovery of CAP-related costs solely from residential customers?**

31 A. Yes. Counsel further advises that the Commission indicated it would now *consider*
32 recovering the costs of CAP programs from all ratepayer classes in utility-specific
33 proceedings, with decisions regarding cost recovery to remain the province of such
34 proceedings.⁸

⁸ See the Commission’s Final Policy Statement and Order, Docket No. M-2019-3012599, Order entered November 5, 2019.

1 **Q. Why is the Commission considering revisiting its position on CAP-cost**
2 **recovery at this time?**

3 A. Counsel advises that the Commission expressed concern that the anticipated
4 increases in universal spending on the part of electric and natural gas
5 distribution companies would make electric and/or natural gas bills
6 “increasingly unaffordable” for non-CAP customers, if universal service
7 costs were continued to be recovered solely from residential ratepayers.

8

9 **Q. Have you quantified the average monthly cost to residential customers of**
10 **recovering PWSA’s proposed BDP-CAP program costs solely from the**
11 **residential class?**

12 A. Yes, I have. Table 1 below shows that if all BDP-CAP costs were to be recovered
13 solely from residential customers, the average monthly cost to non-CAP residential
14 water, wastewater and stormwater customers would be only \$2.09, \$0.65 and \$0.33,
15 respectively.

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Table 1

Average Cost per Month of Recovering 100% of PWSA’s
Proposed BDP-CAP Costs from non-CAP Residential Customers

	2022 Water Service	2022 Wastewater Service	2022 Stormwater Service
Admin./Hardship	\$145,699	\$132,352	\$126,749
Discounts	<u>\$1,443,809</u>	<u>\$566,253</u>	<u>\$250,545</u>
Total Costs	\$1,589,508	\$698,605	\$377,294
Non-CAP Bills	759,140	1,081,777	1,135,152
Cost per Bill	\$2.09	\$0.65	\$0.33

Source: Exhibits HJS-9W, HJS-11W, HJS-8WW, HJS-10WW, HJS-3SW and HJS-5SW.

Q. In your opinion, would recovering PWSA’s proposed 2022 BDP-CAP program costs solely from residential customers render the Authority’s average residential water and wastewater bills unaffordable?

A Base on the bill impacts shown in Table 1, it would not.

Q. Would it therefore be appropriate to assign all BDP-CAP program costs to the residential class in the Authority’s water, wastewater and stormwater cost studies, consistent with past Commission policy?

A. Yes.

1 **Q. For the record, has the Commission declined to allocate universal service costs**
2 **to non-residential classes in any recently concluded rate proceedings?**

3 A. Yes. Counsel advises that the Commission declined to allocate universal service
4 costs to non-residential customers in the following litigated proceedings: 1)
5 Columbia Gas of Pennsylvania at Docket No. R-2020-3018835;⁹ and 2) PECO
6 Energy Company – Gas Division at Docket No. R-2020-3018929.¹⁰

7

8 **Q. Have you rerun the Authority’s revised WCOSS to allocate water-related**
9 **BDP-CAP administrative and Hardship costs solely to the residential class?**

10 A. Yes, I have. I will discuss the proper allocation of BDP-CAP program foregone
11 revenues later in this section of my testimony.

12

13 **Q. What are the cumulative class cost-of-service impacts of i) allocating service**
14 **line costs to the Authority’s residential classes, ii) assigning LSLR program**
15 **costs to all classes on the basis of equivalent meters, and iii) directly assigning**
16 **BDP-CAP administrative and Hardship program costs to the residential class,**
17 **when measured against the results of the Authority’s WCOSS?**

18 A. The cumulative impact on unadjusted class cost of service is shown in column 4 of
19 Schedule BK-1W.

20

21 **Q. What do you mean by “unadjusted” class cost of service?**

⁹ Opinion and Order, entered February 19, 2021, at pp. 258-261.

¹⁰ Opinion and Order, entered June 22, 2021, at pp. 262-265.

1 A. The Authority's WCOSS model determines final class revenue responsibilities in
2 stages. The unadjusted results show the "pure" or cost-based revenue levels of each
3 class. However, various factors prevent the Authority from assigning each class its
4 cost-based revenue level.

5 For example, public fire service rates are limited by statute to 25% of total
6 cost of service, which requires PWSA to assign the resulting revenue shortfall to
7 other classes. Second, PWSA's wholesale class is under-contributing, but the
8 Authority's ability to adjust wholesale rates is currently limited by existing
9 contracts. As a result, PWSA must adjust other class revenue targets to make up the
10 wholesale revenue shortfall. Third, the Authority's proposed BDP-CAP program
11 produces a revenue shortfall that must be recovered from other classes. Fourth, the
12 Authority has imposed additional limits on public fire and municipal revenues to
13 conform with the parameters of the municipal rate phase-in plan contained in its
14 Cooperation Agreement with the City of Pittsburgh. This limitation creates yet
15 another type of revenue shortfall that must be recovered from non-municipal
16 classes. Finally, PWSA is proposing to limit all class increases (excluding public
17 fire) to no more than 150% of the system average.

18 In short, in order to determine final class revenue targets, all of the above
19 adjustments must be carried out.

20

21 **Q. Do you agree with the manner in which PWSA's implemented its adjustments**
22 **to class revenue requirements in its WCOSS?**

1 A. Not in all cases. I have two disagreements with the Authority's proposed cost-of-
2 service adjustments, which I will discuss in the following portion of my testimony.

3

4 *Adjustments to Class Cost of Service*

5 **Q. How does PWSA propose to recover the BDP-CAP revenue shortfall in its**
6 **WCOSS?**

7 A. PWSA is proposing to reallocate \$1.44 million of unrecovered BDP-CAP revenues
8 to other classes on the basis of total unadjusted cost of service, excluding the
9 Residential-CAP, wholesale and public fire classes.

10

11 **Q. Do you agree that the BDP-CAP revenue shortfall should be recovered in this**
12 **manner?**

13 A. No, I do not. As discussed earlier in my testimony, all BDP-CAP costs should be
14 directly assigned to the residential class.

15

16 **Q. Do you agree with the Authority's proposal to limit class increases to no more**
17 **than 1.5 times the system average in this proceeding?**

18 A. Yes. However, in order to limit the Industrial increase, PWSA proposes to shift
19 \$675,000 of Industrial revenue responsibility to other customer classes, which
20 results in an Industrial class increase of 27.2% or 1.38 times the Authority's
21 requested system average increase in base rate revenues.¹¹ In other words, PWSA

¹¹ See Exhibit HJS-15W.

1 has, in practice, unnecessarily shifted too much Industrial revenue responsibility to
2 other classes in its WCOSS.

3

4 **Q. Have you rerun the Authority's WCOSS to incorporate i) the assignment of**
5 **BDP-CAP foregone revenues solely to the residential class, and ii) an**
6 **Industrial class increase of 1.5 times the system average?**

7 A. Yes, I have.

8

9 **Q. Have you made another other adjustment to PWSA's WCOSS?**

10 A. Yes. In order to limit the residential class increase to no more than 1.5 times the
11 system average, I implemented a gradualism adjustment that shifts \$2.75 million of
12 residential revenue responsibility to non-residential classes, based on unadjusted
13 cost of service.

14 The adjusted class cost-of-service results obtained after implementing all of
15 the OSBA's modifications to the Authority's WCOSS are summarized in column 2
16 of Schedule BK-2WW.

17

18 **B. Water Revenue Allocation**

19 **Q. Mr. Kalcic, how does PWSA propose to recover its requested water revenue**
20 **increase in this proceeding?**

21 A. Schedule BK-3W summarizes the Authority's revenue allocation proposal. As
22 shown on lines 1-9 of Schedule BK-3W, the Authority's proposed base rate water
23 revenue increases range from -1.1% (Private Fire) to 27.2% (Industrial). The

1 Authority's overall requested increase in retail base rate water revenues is 19.8%
2 (per line 10).

3

4 **Q. How did Mr. Smith arrive at the proposed base rate revenue allocation for**
5 **water service shown in Schedule BK-3W?**

6 A. The Authority's proposed revenue allocation reflects the adjusted class cost-of-
7 service results shown in PWSA's WCOSS (as summarized in column 1 of Schedule
8 BK-2W), subject to rate design constraints.

9

10 **Q. Do you agree with PWSA's proposed base rate water revenue allocation shown**
11 **in Schedule BK-3W?**

12 A. I do not agree because PWSA's proposal is grounded upon the results of its
13 WCOSS, which fails to properly allocate (or reallocate) costs to the Authority's
14 customer classes.

15

16 **Q. Have you prepared a recommended class revenue allocation for water service?**

17 A. Yes. The OSBA's recommended base rate revenue allocation is shown in Schedule
18 BK-4W. As shown on lines 1-9 of Schedule BK-4W, the OSBA's recommended
19 base rate water revenue increases range from 4.7% (H&E) to 29.5% (Residential
20 and Industrial).

21

22 **Q. How did you determine your recommended base rate revenue allocation for**
23 **water service shown in Schedule BK-4W?**

Direct Testimony of Brian Kalcic

1 A. The OSBA's recommended base rate revenue allocation reflects the adjusted class
2 revenue targets provided in the OSBA's recommended WCOSS, as summarized in
3 column 2 of Schedule BK-2W, subject to rate design constraints and rounding.

4

5 **Q. Mr. Kalcic, do you have a recommendation in the event that the Commission**
6 **awards PWSA a base rate water revenue increase that is less than the**
7 **Authority's requested increase of \$24.4 million?**

8 A. I do. In that event, I would recommend that the OSBA's recommended class
9 increases (excluding public fire) shown in column 3, lines 1-8 of Schedule BK-4W
10 be reduced proportionately.

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III. WASTEWATER SERVICE

A. WWCOSS

Q. What type of wastewater cost-of-service study (“WWCOSS”) did PWSA sponsor for this proceeding?

A. Mr. Smith submitted a class cost-of-service analysis (summarized in Exhibits HJS-1WW to HJS-18WW) for wastewater service using the methodology described in the Water Environment Federation’s (“WEF”) Manual of Practice No. 27, “Financing and Charges for Wastewater Systems.”

Q. Please summarize the major components of the WEF methodology that is used in the Authority’s WWCOSS.

A. Like the BEC methodology, the WEF method consists of three major steps. First, the utility’s system-wide revenue requirement is assigned to functional categories, namely: 1) conveyance and collection; 2) meters; 3) billing; and 4) administrative support costs. Second, the functionalized costs are *classified* or assigned to cost categories. Finally, each cost category is *allocated* to rate classes in accordance with a factor that reflects relative cost responsibility.

The WEF’s functionalization, classification and allocation steps combine to produce a measure of total cost of service, by rate class. By comparing allocated cost responsibility to actual revenue levels, one can determine whether a given rate class is contributing above or below its cost-of-service indications.

1

2 **Q. What customer classes are included in the Authority's WWCOSS?**

3 A. The study allocates functionalized costs to following seven customer classes: a)
4 Residential; b) Residential – CAP; c) Commercial; d) Industrial; e) H&E; f)
5 Municipal – Metered; and g) Municipal – Unmetered.

6

7 **Q. Based upon your review, do you agree with how the Authority implemented**
8 **the WEF cost methodology in its WWCOSS in this case?**

9 A. No. As discussed below, I have identified certain deficiencies in the Authority's
10 WWCOSS.

11

12 *Infiltration and Inflow ("I&I")*

13 **Q. Please discuss your first area of disagreement with the Authority's WWCOSS.**

14 A. Upon review of PWSA's WWCOSS, I find that the Authority has failed to provide
15 an estimate of certain I&I volume conveyed on its system. As a result, a portion of
16 I&I costs are not quantified and properly allocated to customer classes in the
17 Authority's WWCOSS.

18

19 **Q. What are infiltration and inflow volumes?**

20 A. The typical wastewater system collects and conveys a significant amount of
21 infiltration and inflow volumes. Infiltration refers to groundwater that enters
22 sanitary sewer systems through cracks and/or leaks in sanitary sewer pipes. Inflow
23 refers to stormwater that enters into wastewater systems at points of direct

1 connection to the systems. I&I volumes cause otherwise clean water to enter a
2 sanitary system, which increases the load on the system and raises costs to
3 ratepayers.

4

5 **Q. What types of I&I volumes did PWSA identify for this proceeding?**

6 A. PWSA estimated the stormwater volumes that enter the wastewater system, and
7 used that estimate to unbundle associated stormwater-related costs from its claimed
8 wastewater revenue requirement. However, the Authority did not provide an
9 estimate of the infiltration volumes that enter the wastewater system, with the result
10 that total infiltration-related costs are not separately identified in PWSA's
11 WWCOS.

12

13 **Q. Did the OSBA request the Authority to provide an estimate of the total amount**
14 **of I&I in PWSA's separated sewersheds (i.e., non-combined sewer system) in**
15 **order to identify a portion of the infiltration volumes conveyed on PWSA's**
16 **system?**

17 A. It did. However, PWSA responded that such information was not available.¹²

18

19 **Q. Since PWSA did not identify total system I&I, how are I&I-related costs**
20 **allocated to classes in its WWCOS?**

21 A. Generally speaking, I&I costs, exclusive of stormwater-related inflow costs, are
22 included with PWSA's functionalized conveyance and collection costs.

¹² See PWSA's response to OSBA-II-6.

1

2 **Q. How are conveyance and collection costs allocated to customer classes in the**
3 **Authority's WWCOSs?**

4 A. Conveyance and collection costs are deemed to be volume related and are allocated
5 to customer classes on the basis of class water consumption.

6

7 **Q. Is it appropriate to allocate I&I costs to classes solely on the basis of water**
8 **consumption?**

9 A. No. The WEF methodology deems I&I costs to be a function of both the number of
10 connections and volumes conveyed on a wastewater system, with a recommended
11 weighting of 2/3 connections and 1/3 volumes. As a result, PWSA's approach of
12 allocating all I&I costs on the basis on class water consumption is biased in favor of
13 residential customers.

14

15 **Q. Did the OSBA identify the misallocation of I&I costs as an issue in PWSA's**
16 **prior rate proceedings?**

17 A. It did. In past cases, I recommended that the Commission order the Authority to i)
18 submit a plan to address infiltration cost remediation in its next rate case, and ii)
19 gather the data necessary to allocate I&I costs to customer classes in a cost-based
20 manner in future WWCOSs.

21

22 **Q. Did PWSA agree to address the OSBA's I&I concerns in the settlement that**
23 **was reached in the Authority's prior rate proceeding?**

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1 A. Yes. In the 2020 rate case settlement, PWSA agreed to account for I&I costs in its
2 next rate proceeding. To the extent that PWSA does not account for all I&I costs
3 in its next rate case, the Authority agreed to address the total costs of I&I in its
4 subsequent rate proceeding.¹³

5

6 **Q. Has PWSA fulfilled its settlement commitment in this area?**

7 A. Mr. Smith addresses this settlement provision in his direct testimony at page 35.
8 Mr. Smith states that PWSA identified one capital project designed to address the
9 cost associated with I&I in the FPFTY, and the annual debt service cost of that
10 project was incorporated as an I&I (rather than conveyance and collection)
11 functional cost category in PWSA's WWCOS.

12

13 **Q. In identifying one I&I-related capital project, has PWSA therefore identified**
14 **the total costs associated with I&I on its wastewater system, for use in its**
15 **WWCOS?**

16 A. No, since that capital project addresses only a portion of the I&I on PWSA's
17 system.

18

19 **Q. What do you recommend?**

20 A. Consistent with the settlement in PWSA's 2020 rate proceeding, I recommend that
21 the Commission direct the Authority to identify the total costs associated with I&I
22 on its wastewater system in its next rate proceeding. Segregating I&I costs from the

¹³ See Section III.C.4 of the Joint Petition for Settlement in PWSA's 2020 rate proceeding.

1 Authority's overall conveyance and collection costs will allow for far greater
2 precision when allocating wastewater costs to classes in PWSA's future rate
3 proceedings.

4

5 **Q. Have you rerun the Authority's WWCOSS with any additional I&I costs**
6 **segregated from the conveyance and collection cost function?**

7 A. No, since the information necessary to quantify additional I&I-related costs is not
8 available at this time.

9

10 *BDP-CAP Program Costs*

11 **Q. Please discuss your next area of disagreement with the Authority's WWCOSS.**

12 A. As previously discussed, the Authority is proposing to recover BDP-CAP program
13 costs from ratepayers. The *wastewater* portion of the costs of the Authority's
14 proposed BDP-CAP program consist of: 1) an allocated portion of budgeted
15 administrative expenses and Hardship program costs in the amount of \$132,352 per
16 year; and 2) foregone revenues in 2022 of approximately \$0.566 million.¹⁴ In both
17 instances, the associated BDP-CAP costs are allocated to both residential and non-
18 residential customer classes in the Authority's WWCOSS.

19

20 **Q. In your opinion, would recovering PWSA's proposed BDP-CAP program costs**
21 **from non-residential customers be appropriate?**

¹⁴ See Exhibit HJS-9WW.

1 A No. For the reasons discussed in the previous section of my testimony, all BDP-
2 CAP program costs should be directly assigned to the residential class.

3

4 **Q. Have you rerun the Authority's WWCROSS to allocate wastewater-related**
5 **BDP-CAP administrative and Hardship costs solely to the residential class?**

6 A. Yes, I have. I will address the allocation of BDP-CAP program foregone revenues
7 later in this section of my testimony.

8

9 **Q. What are the class cost-of-service impacts of directly assigning BDP-CAP**
10 **administrative and Hardship program costs to the residential class, when**
11 **measured against the results of the Authority's WWCROSS?**

12 A. The impact on unadjusted class cost of service is shown in column 3 of Schedule
13 BK-1WW.

14

15 **Q. Mr. Kalcic, does the Authority make any adjustments to its unadjusted class**
16 **cost-of-service results for wastewater service, which are shown in column 1 of**
17 **Schedule BK-1WW?**

18 A. Yes. In the case of wastewater service, PWSA must adjust its class cost-of-service
19 results to recover: 1) bad debt expense; 2) the foregone revenue associated with its
20 proposed BDP-CAP program; 3) the revenue shortfall stemming from limiting
21 municipal rates to conform with the parameters of the rate phase-in plan contained
22 in its Cooperation Agreement with the City of Pittsburgh; and 4) a shift in revenue

1 responsibility from stormwater to wastewater service (i.e., a gradualism adjustment)
2 to mitigate the customer impact associated with PWSA's new stormwater fees.

3

4 **Q. Do you agree with the manner in which PWSA's implemented its adjustments**
5 **to class revenue requirements in its WWCROSS?**

6 A. I do, except in the cases of i) PWSA's proposed adjustment for BDP-CAP foregone
7 revenues and ii) its allocation of the cost of the stormwater gradualism adjustment
8 to wastewater classes.

9

10 *Adjustments to Class Cost of Service*

11 **Q. How does PWSA propose to recover the BDP-CAP program revenue shortfall**
12 **in its WWCROSS?**

13 A. PWSA is proposing to reallocate \$566,253 of foregone BDP-CAP revenues to other
14 classes on the basis of total unadjusted cost of service.

15

16 **Q. Do you agree that the BDP-CAP revenue shortfall should be recovered in this**
17 **manner?**

18 A. No. As discussed earlier in my testimony, all BDP-CAP costs, including foregone
19 revenues, should be directly assigned to the residential class.

20

21 **Q. Have you rerun the Authority's WWCROSS to reflect the reallocation of BDP-**
22 **CAP foregone revenues solely to the residential class?**

23 A. Yes, I have.

1

2 **Q. How does PWSA allocate its proposed stormwater gradualism adjustment to**
3 **classes in its WWCOSS?**

4 A. PWSA proposes to allocate \$12.4 million of stormwater revenue responsibility to
5 wastewater classes based on unadjusted class cost of service.¹⁵

6

7 **Q. Do you agree?**

8 A. No. The Authority's proposed method results in a mismatch between i) the amount
9 of subsidy received, by stormwater class, and ii) the amount of subsidy paid for, by
10 (the corresponding) wastewater service class.

11 In order to ensure that stormwater subsidies received and wastewater
12 subsidies paid for are revenue neutral on a class basis, I recommend that stormwater
13 subsidies be allocated to wastewater classes based on the amount of actual subsidy
14 received by the corresponding stormwater class, under the Authority's proposed
15 stormwater rate design.

16

17 **Q. Have you calculated the actual subsidy received, by stormwater class, under**
18 **PWSA's proposed stormwater rate design?**

19 A. Yes, in Schedule BK-4SW, which I will discuss in the next section of my
20 testimony.

21

¹⁵ See Exhibit HJS-9WW.

1 **Q. Did you use the subsidies shown in Schedule BK-4SW to assign cost**
2 **responsibility for the stormwater gradualism adjustment in PWSA's**
3 **WWCOSS?**

4 A. Yes, Schedule BK-4SW was used to allocate the cost of the stormwater gradualism
5 adjustment to customer classes in the OSBA's recommended WWCOSS.

6 The adjusted class cost-of-service results obtained after implementing all of
7 the OSBA's recommended modifications to the Authority's WWCOSS are
8 summarized in column 2 of Schedule BK-2WW.

9

10 **B. Wastewater Revenue Allocation**

11 **Q. Mr. Kalcic, how does PWSA propose to recover its requested wastewater**
12 **revenue adjustment in this proceeding?**

13 A. Schedule BK-3WW summarizes the Authority's revenue allocation proposal. Due
14 the PWSA's unbundling of stormwater costs from its current wastewater service
15 rates, all classes would receive a rate decrease under the Authority's revenue
16 allocation proposal. As shown on lines 1-7 of Schedule BK-3WW, the Authority's
17 proposed base rate wastewater revenue adjustments range from -16.3%
18 (Residential) to -31.6% (H&E). The overall proposed adjustment in base rate
19 wastewater revenues is -21.3% (per line 8).

20

21 **Q. How did PWSA arrive at the proposed base rate revenue allocation for**
22 **wastewater service shown in Schedule BK-3WW?**

1 A. The Authority's proposed revenue allocation reflects the adjusted class cost-of-
2 service results shown in PWSA's WWCROSS (as summarized in column 1 of
3 Schedule BK-2WW), subject to rate design constraints.
4

5 **Q. Do you agree with PWSA's proposed base rate wastewater revenue allocation**
6 **shown in Schedule BK-3WW?**

7 A. I do not agree because PWSA's proposal is grounded upon the results of its
8 WWCROSS, which fails to properly allocate costs to the Authority's customer
9 classes.
10

11 **Q. Have you prepared a recommended class revenue allocation for wastewater**
12 **service?**

13 A. Yes, I have. The OSBA's recommended base rate revenue allocation is shown in
14 Schedule BK-4WW. As shown on lines 1-7 of Schedule BK-5WW, the OSBA's
15 recommended base rate wastewater revenue adjustments range from -13.4%
16 (Residential) to -37.0% (H&E).
17

18 **Q. How did you determine your recommended base rate revenue allocation shown**
19 **in Schedule BK-4WW?**

20 A. The OSBA's recommended base rate revenue allocation incorporates the adjusted
21 class revenue targets provided in the OSBA's recommended WWCROSS, as
22 summarized in column 2 of Schedule BK-2WW, subject to rate design constraints
23 and rounding.

1

2 **Q. Mr. Kalcic, do you have a recommendation in the event that the Commission**
3 **awards PWSA an adjustment in total wastewater revenues that deviates from**
4 **the Authority's requested decrease of \$15.6 million?**

5 A. Yes. In that event, I would recommend that the OSBA's recommended class
6 revenue adjustments shown in column 3, lines 1-7 of Schedule BK-4WW be
7 adjusted proportionately.

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IV. STORMWATER SERVICE

A. SWCOSS

Q. Did PWSA sponsor a SWCOSS in this proceeding?

A. Yes. Mr. Smith submitted a class cost-of-service analysis (summarized in Exhibits HJS-1SW to HJS-9SW) for stormwater service that allocates the Authority’s claimed stormwater revenue requirement to classes based on the amount of billable impervious surface area located on properties (or parcels) owned by each class.

Q. How does PWSA define impervious surface area?

A. The Authority expresses imperious area in terms of equivalent residential units (“ERUs”), where an ERU is defined as 1,650 square feet of impervious surface.

Q. Does PWSA propose to bill all customers for stormwater service based on the number of measured ERUs?

A. Not exactly. PWSA proposes to bill residential customers according to a three-tiered rate structure. The lowest tier, which would apply to properties with 400 to 1,015 square feet of impervious area, would be billed for 0.5 ERUs. The middle tier, billed at 1.0 ERUs, would apply to properties with 1,015 to 2,710 square feet of impervious area. The highest tier, which would apply to all residential properties with 2,710 or more square feet of impervious area, would be billed for 2.0 ERUs.

1 All non-residential properties will be billed based on the number of
2 measured ERUs, rounded up to the next whole ERU. For example, a property with
3 2.3 measured ERUs would be billed for 3 ERUs under PWSA's proposal. The
4 minimum stormwater fee for non-residential properties with at least 400 feet of
5 measured impervious area would be 1.0 ERUs.

6 In short, a customer's billed ERUs is likely to deviate from actual ERUs due
7 to PWSA's proposed billing practices.

8

9 **Q. Based upon your review, do you agree with how the Authority prepared its**
10 **SWCOSS in this case?**

11 A. No. As discussed below, I have identified certain deficiencies in the Authority's
12 SWCOSS.

13

14 *Billed versus Actual ERUs*

15 **Q. Please discuss your first area of disagreement with the Authority's SWCOSS.**

16 A. The premise underlying PWSA's SWCOSS is that customers should pay for
17 stormwater service in proportion to the demands they impose on PWSA's facilities
18 (in the form of storm runoff volumes), and the costs incurred by PWSA to meet
19 those demands. Upon accepting that premise, I find that stormwater costs should be
20 allocated to classes based on the actual (i.e., measured) ERUs attributable to each
21 class. Instead, PWSA allocates stormwater costs to classes on the basis of *billed*
22 ERUs, which may deviate from actual ERUs for any number of reasons related to
23 PWSA's proposed billing structure.

1

2 **Q. Have you allocated PWSA's claimed stormwater costs to classes based on**
3 **actual ERUs?**

4 A. Yes. PWSA provided the total measured impervious area used to determine billable
5 ERUs, by customer class, in response to OSBA-II-3. Using that information, I
6 reran PWSA's SWCOSS, allocating stormwater costs to classes based on actual
7 ERUs.

8 Column 2 of Schedule BK-1SW shows the impact of allocating costs based
9 on actual ERUs on PWSA's unadjusted class cost-of-service results.

10

11 *BDP-CAP Program Costs*

12 **Q. Please discuss your next area of disagreement with the Authority's SWCOSS.**

13 A. As I previously discussed, PWSA is proposing to recover BDP-CAP program costs
14 from ratepayers. The *stormwater* portion of the costs of the Authority's proposed
15 BDP-CAP program consist of: 1) an allocated portion of budgeted administrative
16 expenses and Hardship program costs in the amount of \$126,749 per year; and 2)
17 foregone revenues in 2022 of approximately \$0.251million.¹⁶ In both instances,
18 the associated BDP-CAP costs are allocated to both residential and non-residential
19 customer classes in the Authority's SWCOSS.

20

21 **Q. Would recovering PWSA's proposed BDP-CAP program costs from non-**
22 **residential stormwater customers be appropriate?**

¹⁶ See Exhibit HJS-5SW.

1 A No. For the reasons discussed in the water service section of my testimony, all
2 BDP-CAP program costs should be directly assigned to the residential class.

3

4 **Q. Have you rerun the Authority's SWCOSS to allocate stormwater-related BDP-**
5 **CAP administrative and Hardship costs solely to the residential class?**

6 A. Yes, I have. I will address the allocation of BDP-CAP program foregone revenues
7 later in this section of my testimony.

8

9 **Q. What are the cumulative class cost-of-service impacts of i) allocating**
10 **stormwater costs to classes based on actual ERUs, and ii) directly assigning**
11 **BDP-CAP administrative and Hardship program costs to the residential class,**
12 **when measured against the results of the Authority's SWCOSS?**

13 A. The cumulative impact on unadjusted class cost of service is shown in column 4 of
14 Schedule BK-1SW.

15

16 **Q. Does the Authority make any adjustments to its unadjusted class cost-of-**
17 **service results for stormwater service, which are shown in column 1 of**
18 **Schedule BK-1SW?**

19 A. Yes. In the case of stormwater service, PWSA must adjust its class cost-of-service
20 results to recover: 1) bad debt expense; 2) bad debt expense from stormwater only
21 customers ("SWO"); 3) the foregone revenue associated with its proposed BDP-
22 CAP program; 4) the cost associated with its proposed Credits and Incentives

1 (“C&I”) program; and 5) the proposed subsidy to be provided by wastewater
2 customers to mitigate the customer impact associated with new stormwater fees.

3

4 **Q. Do you agree with the manner in which PWSA’s implemented its adjustments**
5 **to class revenue requirements in its WWCOSS?**

6 A. Not in all cases. I disagree with PWSA’s i) proposed allocation of a portion of bad
7 debt expense and ii) proposed adjustment for BDP-CAP foregone revenue.

8

9 **Q. Before discussing the manner in which PWSA adjusted its SWCOSS results,**
10 **do you wish to comment on the *magnitude* of any of PWSA’s proposed**
11 **adjustments?**

12 A. Yes. I have concerns regarding the magnitude of PWSA’s proposed SWO bad debt
13 expense and C&I adjustments shown in Exhibit HJS-5SW.

14

15 **Q. Please describe PWSA’s proposed SWO bad debt expense adjustment.**

16 A. PWSA expects that stormwater bills sent to SWO customers will have a higher non-
17 payment rate than stormwater bills sent to customers that also receive
18 water/wastewater service (“NSWO” customers) due to the fact that SWO customers
19 do not face the threat of any service shut-off for non-payment. Based on the
20 experience of the Northeast Ohio Regional Sewer District and the Philadelphia
21 Water Department, PWSA posits that SWO customers will exhibit a 40% non-
22 payment rate. This may be compared to an expected 2% non-payment rate for
23 PWSA’s existing water and wastewater customers.

1 Based on a SWO non-payment rate of 40%, PWSA has proposed to include
2 SWO bad debt expense in the amount of \$1.2 million in its claimed stormwater
3 revenue requirement.
4

5 **Q. Do you agree with using a 40% non-payment rate for SWO customers?**

6 A. No. While the combined experience of the Northeast Ohio Regional Sewer District
7 and the Philadelphia Water Department suggests that initial non-payment rates may
8 be very high (40%), it also suggests that non-payment rates may be expected to
9 improve very quickly. According to PWSA's response to OCA-V-13, non-payment
10 rates declined to 21% in Year 2 of stormwater billings, and to 11% by Year 4.

11 Since non-payment rates may be expected to improve very quickly, I find it
12 unreasonable to use a SWO non-payment rate of 40% to determine PWSA's
13 stormwater revenue requirement.
14

15 **Q. What SWO non-payment rate do you recommend be used?**

16 A. I recommend that the Commission direct PWSA to employ a SWO non-payment
17 rate of 30%, which is the approximate average of the Year 1 and 2 non-payment
18 rates experienced by the Northeast Ohio Regional Sewer District and the
19 Philadelphia Water Department.

20 All else equal, assigning SWO customers a non-payment rate of 30% would
21 reduce the Authority's claimed stormwater revenue requirement by approximately
22 \$300,000.
23

1 **Q. Please discuss PWSA's proposed C&I adjustment.**

2 A. PWSA is proposing to a credit program to incent residential and non-residential
3 customers to reduce their stormwater fee by taking specific actions to reduce
4 stormwater runoff. In the case of non-residential customers, the credits are tied to
5 implementing functional structural stormwater controls that meet either the 2016 or
6 2019 City of Pittsburgh stormwater standards.

7 PWSA expects that a number of non-residential customers have already
8 taken steps to meet either the 2016 or 2019 City of Pittsburgh standards, and
9 therefore would be eligible for a C&I credit immediately upon application.
10 Accordingly, PWSA estimates that it will incur C&I credit costs of approximately
11 \$700,000, or 5% of its proposed non-residential program stormwater billings, in the
12 first year of the program, and has included the \$700,000 in its claimed stormwater
13 revenue requirement.

14
15 **Q. Has PWSA provided any estimate of the number of non-residential properties**
16 **that currently meet either the 2016 or 2019 City of Pittsburgh standards, so as**
17 **to support its proposed C&I budget?**

18 A. No, PWSA does not have an estimate of the number of properties that currently
19 meet either standard.¹⁷ As such, it is unclear how many non-residential customers
20 would be eligible for the C&I credit upon application, or how much any such
21 credits would total.

22

¹⁷ See PWSA's response to OSBA-III-7.

1 **Q. Would do you recommend with respect to PWSA’s proposed C&I budget?**

2 A. In the OSBA’s view, PWSA has not provided sufficient support for its claim that
3 C&I credits will total \$700,000 per year upon approval of its C&I program. I
4 recommend that PWSA seek to provide greater empirical support for its requested
5 C&I budget in rebuttal testimony. Absent such support, I would recommend that
6 the Commission deny PWSA’s claim.

7

8 *Adjustments to Class Cost of Service*

9 **Q. How does PWSA propose to allocate bad debt expense associated with non-**
10 **stormwater only (“NSWO”) customers in its SWCOSS?**

11 A. PWSA is proposing to allocate \$0.42 million of NSWO bad debt expense to classes
12 on the basis of total unadjusted cost of service.

13

14 **Q. Do you agree that the NSWO bad debt expense should be allocated in this**
15 **manner?**

16 A. No. NSWO bad debt expense should be allocated to classes on the basis of
17 historical class contributions to bad debt expense, which is the same allocation
18 factor PWSA used to allocate water- and wastewater-related bad debt expense to
19 classes in its WCOSS and WWCOSS, respectively.

20

21 **Q. Should historical class contributions to bad debt expense also be used to**
22 **allocate SWO bad debt expense to customer classes?**

1 A. Not directly. However, there is a valid argument for using relative historical
2 contributions to bad debt expense as a weight when developing a SWO bad debt
3 expense allocation factor. I have not done so when implementing the OSBA's
4 proposed SWCOSS adjustments.

5

6 **Q. Have you rerun the Authority's SWCOSS to allocate NSW0 bad debt expense**
7 **on the basis of historical class contributions to bad debt expense?**

8 A. Yes.

9

10 **Q. How does PWSA propose to recover the BDP-CAP program revenue shortfall**
11 **in its SWCOSS?**

12 A. PWSA is proposing to reallocate \$250,545 of foregone BDP-CAP revenues to other
13 classes on the basis of total unadjusted cost of service.

14

15 **Q. Do you agree that the BDP-CAP revenue shortfall should be recovered in this**
16 **manner?**

17 A. No. As discussed above, all BDP-CAP costs, including foregone revenues, should
18 be directly assigned to the residential class.

19

20 **Q. Have you rerun the Authority's SWCOSS to reflect the reallocation of BDP-**
21 **CAP foregone revenues solely to the residential class?**

1 A. Yes, I have. The adjusted class cost-of-service results obtained after implementing
2 all of the OSBA's modifications to the Authority's SWCOSS are summarized in
3 column 2 of Schedule BK-2SW.

4

5 **B. Stormwater Revenue Allocation**

6 **Q. How does PWSA propose to recover its requested stormwater revenue**
7 **requirement in this proceeding?**

8 A. Schedule BK-3SW summarizes the Authority's revenue allocation proposal.

9

10 **Q. How did PWSA arrive at the proposed base rate revenue allocation for**
11 **stormwater service shown in Schedule BK-3SW?**

12 A. PWSA's proposed revenue allocation generally reflects the adjusted class cost-of-
13 service results shown in PWSA's SWCOSS (as summarized in column 1 of
14 Schedule BK-2WW), subject to rate design rounding. Under PWSA's proposed
15 rate design, all classes would pay a uniform monthly stormwater rate of \$7.95 per
16 billable ERU.

17

18 **Q. Do you agree with PWSA's proposed stormwater revenue allocation shown in**
19 **Schedule BK-3SW?**

20 A. Yes and no. In the absence of a stormwater subsidy paid by wastewater customers,
21 I would not agree with PWSA's proposed stormwater revenue allocation and rate
22 design since it would not reflect class cost of service, as determined by actual
23 ERUs. However, PWSA is proposing to include a \$12.4 million subsidy in its

1 stormwater revenue requirement. As such, any stormwater rate design that emerges
2 at the conclusion of this proceeding will, by definition, not reflect class cost of
3 service.

4 Rather than pursue an alternative stormwater rate design in an attempt to
5 comport with an adjusted cost of service benchmark, the OSBA can agree to
6 PWSA's proposed stormwater revenue allocation shown in Schedule BK-3SW.
7 However, in doing so, the OSBA recommends that the stormwater subsidy of \$12.4
8 million be allocated to wastewater classes based on the amount of actual subsidy
9 received by the corresponding stormwater class, under the Authority's proposed
10 stormwater rate design.

11
12 **Q. Have you calculated the actual subsidies received, by stormwater class, under**
13 **PWSA's proposed stormwater rate design?**

14 A. I have. Column 3 of Schedule BK-4SW shows the actual SW subsidy received, by
15 class, based on the OSBA's recommended SWCOSS (column 1) and PWSA's
16 proposed revenue allocation (column 2). For example, Schedule BK-4SW shows
17 that the residential stormwater class would receive a subsidy of \$6.3 million under
18 PWSA's proposed revenue allocation. Accordingly, it would be appropriate to
19 assign residential wastewater customers cost responsibility for \$6.3 million of the
20 \$12.4 million total subsidy when developing residential wastewater rates.

21

1 **Q. Finally, so that the record is clear, does the OSBA intend to sponsor separate**
2 **stormwater rates, by customer class, reflective of class cost of service in a**
3 **future PWSA rate proceeding?**

4 A. Yes. The OSBA will pursue such a rate design approach at such time that PWSA's
5 stormwater subsidy has been phased out.

6

1

2

V. INDEXING MISCELLANEOUS SERVICE CHARGES

3

4 **Q. Please provide a brief summary of PWSA's indexing proposal?**

5 A. PWSA is proposing to automatically increase the Miscellaneous, Charges, Fees and
6 Penalties shown in Section H of its water and wastewater tariffs each year to reflect
7 the annual change in the CPI.¹⁸

8

9 **Q. Does indexing represent a new provision in PWSA's tariff?**

10 A. No, the indexing provision was included in the previous versions of PWSA's
11 tariffs.¹⁹

12

13 **Q. In your experience, is it standard ratemaking practice to permit regulated
14 utilities to adjust approved fees and charges for inflation between base rate
15 proceedings?**

16 A. No. Aside from PWSA, I am unaware of any regulated utility in the
17 Commonwealth that has an indexing provision in its approved tariff.

18

19 **Q. Were you aware of the indexing provision in PWSA's tariffs before the
20 Authority filed this case?**

21 A. Quite frankly, I was not.

¹⁸ See PWSA's response to OCA-V-4a.

¹⁹ *Id.*

1

2 **Q. Is PWSA aware of any other regulated utility in the Commonwealth that has**
3 **an indexing provision in its approved tariff?**

4 A. No.²⁰

5

6 **Q. Should the Commission permit PWSA to continue to include an indexing**
7 **provision in its water and wastewater tariffs?**

8 A. No, since it is contrary to standard ratemaking practice. In addition, Counsel
9 advises that an indexing provision constitutes single issue ratemaking, which is
10 prohibited by the Pennsylvania's Public Utility Code. The Commission should
11 therefore direct PWSA to strike the indexing provision from its water and
12 wastewater tariffs.

13

14 **Q. Does this conclude your direct testimony?**

15 A. Yes.

²⁰ See PWSA's response to OSBA-III-10.

EXHIBIT BK-1

Schedules BK-1W through BK-4W

Schedules BK-1WW through BK-4WW

Schedules BK-1SW through BK-4SW

PITTSBURGH WATER AND SEWER AUTHORITY

Comparison of Unadjusted Water Cost-of-Service Results
at PWSA's Claimed Water Service Revenue Requirement
(FPFTY Test Period Ending December 31, 2022)

<u>Line</u>	<u>Water Service</u>	PWSA Unadj. Water Cost of Service 1/ 1	PWSA Unadj. WCOSS with Service Lines Breakout (Non- LSLR Related) 2	PWSA WCOSS with Service Lines Breakout, Re- Allocated LSLR Costs, and CAP Admin. to Res. 3	Cumulative Difference in Allocated COS 4 = 3 - 1
1	Residential	\$44,486,071	\$52,000,907	\$52,852,259	\$8,366,188
2	Residential - CAP	2,760,875	3,254,023	3,289,552	528,677
3	Commercial	47,574,460	43,259,133	43,213,022	(4,361,438)
4	Industrial	3,488,218	3,175,672	3,112,119	(376,099)
5	Health / Education	19,186,042	17,422,693	17,145,742	(2,040,300)
6	Municipal - Metered	3,331,434	3,024,136	2,962,265	(369,169)
7	Municipal - Unmetered	730,698	664,165	660,961	(69,737)
8	Private Fire Service	596,126	560,414	758,505	162,379
9	Public Fire Service	6,980,285	6,324,060	5,968,628	(1,011,657)
10	Wholesale	9,889,027	9,338,034	9,060,184	(828,843)
11	Total Unadj. Water	<u>\$139,023,236</u>	<u>\$139,023,237</u>	<u>\$139,023,237</u>	<u>\$1</u>

Source: Exh. HJS-10W

Rerun of PWSA
WCOSS

Rerun of PWSA
WCOSS

1/ Excludes Bad Debt Expense.

PITTSBURGH WATER AND SEWER AUTHORITY

Comparison of Adjusted Water Cost of Service Results
 at PWSA's Claimed Water Service Revenue Requirement
(FPFTY Test Period Ending December 31, 2022)

<u>Line</u>	<u>Water Service</u>	PWSA Adj. Water Cost of <u>Service 1/</u> 1	OSBA Adjusted Water Cost of <u>Service</u> 2	Difference in Adjusted Revenue <u>Requirements</u> 3 = 2 - 1
1	Residential	\$53,973,946	\$60,260,696	\$6,286,750
2	Residential - CAP	1,726,609	1,868,258	\$141,649
3	Commercial	53,918,842	49,604,136	(\$4,314,706)
4	Industrial	3,185,114	3,243,465	\$58,351
5	Health / Education	21,344,471	19,326,331	(\$2,018,140)
6	Municipal - Metered	2,228,711	2,066,038	(\$162,673)
7	Municipal - Unmetered	-	-	\$0
8	Private Fire Service	886,071	1,046,590	\$160,519
9	Public Fire Service	1,047,195	895,447	(\$151,748)
10	Wholesale	3,690,132	3,690,132	\$0
11	Total Unadj. Water	<u>\$142,001,091</u>	<u>\$142,001,093</u>	<u>\$2</u>

Source: Exh. HJS-10W

Rerun of PWSA
 WCOSS

1/ Includes Bad Debt Expense.

PITTSBURGH WATER AND SEWER AUTHORITY

PWSA Proposed Allocation of its
Requested Increase in Base Rate Water Service Revenues
(FPFTY Test Period Ending December 31, 2022)

<u>Line</u>	<u>Classification</u>	Present	Proposed	Proposed Increase	
		Base Revenue	Base Revenue	Amount	Percent
		1	2	3 = 2 - 1	4
1	Residential	\$46,544,538	\$53,833,534	\$7,288,996	15.7%
2	Residential - CAP	\$1,503,111	\$1,869,666	\$366,555	24.4%
3	Commercial	\$43,394,031	\$54,061,247	\$10,667,216	24.6%
4	Industrial	\$2,504,864	\$3,185,547	\$680,683	27.2%
5	Health / Education	\$18,464,668	\$21,346,292	\$2,881,624	15.6%
6	Municipal - Metered	\$1,688,158	\$2,108,805	\$420,647	24.9%
7	Municipal - Unmetered	\$0	\$0	\$0	-
8	Private Fire Service	\$896,243	\$886,072	(\$10,171)	-1.1%
9	Public Fire Service	<u>\$509,042</u>	<u>\$1,046,916</u>	<u>\$537,874</u>	-
10	Subtotal	\$115,504,655	\$138,338,079	\$22,833,424	19.8%
11	Wholesale & Bulk	\$3,192,713	\$3,690,132	\$497,419	15.6%
12	Other Revenue	\$1,439,417	\$1,439,417	\$0	0.0%
13	DSIC	<u>\$5,749,781</u>	<u>\$6,864,558</u>	<u>\$1,114,777</u>	19.4%
14	TOTAL	<u>\$125,886,566</u>	<u>\$150,332,186</u>	<u>\$24,445,620</u>	19.4%

Source: Sch. HJS-15W

\$24,418,500 Target
\$27,120 Difference

PITTSBURGH WATER AND SEWER AUTHORITY

OSBA Recommended Allocation of PWSA's
Requested Increase in Base Rate Water Service Revenues
(FPFTY Test Period Ending December 31, 2022)

<u>Line</u>	<u>Classification</u>	Present Base Revenue 1	OSBA Recomm. Base Revenue 2	Recommended Increase	
				Amount 3 = 2 - 1	Percent 4
1	Residential	\$46,544,538	\$60,263,244	\$13,718,706	29.5%
2	Residential - CAP	\$1,503,111	\$1,868,582	\$365,471	24.3%
3	Commercial	\$43,394,031	\$49,775,014	\$6,380,983	14.7%
4	Industrial	\$2,504,864	\$3,244,087	\$739,223	29.5%
5	Health / Education	\$18,464,668	\$19,332,544	\$867,876	4.7%
6	Municipal - Metered	\$1,688,158	\$1,897,230	\$209,072	12.4%
7	Municipal - Unmetered	\$0	\$0	\$0	-
8	Private Fire Service	\$896,243	\$1,046,689	\$150,446	16.8%
9	Public Fire Service	<u>\$509,042</u>	\$895,554	\$386,512	-
10	Subtotal	\$115,504,655	\$138,322,944	\$22,818,289	19.8%
11	Wholesale & Contract	\$3,192,713	\$3,690,132	\$497,419	15.6%
12	Other Revenue	\$1,439,417	\$1,439,417	\$0	0.0%
13	DSIC	<u>\$5,749,781</u>	<u>\$6,871,370</u>	\$1,121,589	19.5%
14	TOTAL	<u>\$125,886,566</u>	<u>\$143,452,493</u>	<u>\$24,437,297</u>	19.4%

Source: Sch. HJS-15W

\$24,418,500 Target
\$18,797 Difference

PITTSBURGH WATER AND SEWER AUTHORITY

Comparison of Unadjusted Wastewater Cost-of-Service Results
at PWSA's Claimed Wastewater Service Revenue Requirement
(FPFTY Test Period Ending December 31, 2022)

<u>Line</u>	<u>Wastewater Service</u>	PWSA Unadj. WW Cost of Service 1/ 1	PWSA Unadj. WW Cost of Service with CAP Admin. & Hardship Costs Assigned to Res. 2	Difference in Allocated COS 3 = 2 - 1
1	Residential	\$18,165,900	\$18,193,532	\$27,632
2	Residential - CAP	1,319,723	1,312,725	(6,998)
3	Commercial	14,785,168	14,768,259	(16,909)
4	Industrial	892,558	892,150	(408)
5	Health / Education	4,848,033	4,845,520	(2,513)
6	Municipal - Metered	913,749	913,131	(618)
7	Municipal - Unmetered	203,880	203,694	(186)
8	Total Unadj. Water	<u>\$41,129,011</u>	<u>\$41,129,011</u>	<u>\$0</u>

Source: Exh. HJS-9WW

Rerun of PWSA
WWCOSS

1/ Excludes Bad Debt Expense.

PITTSBURGH WATER AND SEWER AUTHORITY

Comparison of Adjusted Wastewater Cost of Service Results
at PWSA's Claimed Wastewater Service Revenue Requirement
(FPFTY Test Period Ending December 31, 2022)

<u>Line</u>	<u>Wastewater Service</u>	PWSA Adj. WW Cost of <u>Service 1/</u> 1	OSBA Recommended WW Cost of <u>Service</u> 2	Difference in Adjusted Revenue <u>Requirements</u> 3 = 2 - 1
1	Residential	\$24,918,634	\$25,860,656	\$942,022
2	Residential - CAP	773,025	763,622	(9,403)
3	Commercial	20,042,996	19,746,342	(296,654)
4	Industrial	1,205,701	1,062,622	(143,079)
5	Health / Education	6,872,256	6,318,915	(553,341)
6	Municipal - Metered	865,225	925,680	60,455
7	Municipal - Unmetered	-	-	-
8	Total Unadj. Water	<u>\$54,677,837</u>	<u>\$54,677,837</u>	<u>\$0</u>

Source: Exh. HJS-9WW

Rerun of PWSA
WWCOSS

1/ Includes Bad Debt Expense and Stormwater Subsidy.

PITTSBURGH WATER AND SEWER AUTHORITY

PWSA Proposed Allocation of its
Requested Adjustment in Base Rate Wastewater Service Revenues
(FPFTY Test Period Ending December 31, 2022)

Line	Classification	Present	Proposed	Proposed Increase	
		Base Revenue	Base Revenue	Amount	Percent
		1	2	3 = 2 - 1	4
1	Residential	\$29,254,362	\$24,483,158	(\$4,771,204)	-16.3%
2	Residential - CAP	\$1,495,850	\$1,218,710	(\$277,140)	-18.5%
3	Commercial	\$26,322,087	\$20,174,760	(\$6,147,327)	-23.4%
4	Industrial	\$1,506,117	\$1,205,941	(\$300,176)	-19.9%
5	Health / Education	\$10,042,474	\$6,873,274	(\$3,169,200)	-31.6%
6	Municipal - Metered	\$930,878	\$750,122	(\$180,756)	-19.4%
7	Municipal - Unmetered	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	-
8	Subtotal	\$69,551,768	\$54,705,965	(\$14,845,803)	-21.3%
9	Other Revenue	\$673,250	\$673,250	\$0	0.0%
10	DSIC	<u>\$3,477,588</u>	<u>\$2,735,298</u>	(\$742,290)	-21.3%
11	TOTAL	<u>\$73,702,606</u>	<u>\$58,114,513</u>	<u>(\$15,588,093)</u>	-21.1%

Source: Sch. HJS-14WW

(\$15,616,222) Target
\$28,129 Difference

PITTSBURGH WATER AND SEWER AUTHORITY

OSBA Recommended Allocation of PWSA's
Requested Adjustment in Base Rate Wastewater Service Revenues
(FPFTY Test Period Ending December 31, 2022)

Line	Classification	Present Base Revenue 1	OSBA Recomm. Base Revenue 2	Recommended Increase	
				Amount 3 = 2 - 1	Percent 4
1	Residential	\$29,254,362	\$25,343,769	(\$3,910,593)	-13.4%
2	Residential - CAP	\$1,495,850	\$1,284,067	(\$211,783)	-14.2%
3	Commercial	\$26,322,087	\$19,958,862	(\$6,363,225)	-24.2%
4	Industrial	\$1,506,117	\$1,064,412	(\$441,705)	-29.3%
5	Health / Education	\$10,042,474	\$6,326,655	(\$3,715,819)	-37.0%
6	Municipal - Metered	\$930,878	\$740,857	(\$190,021)	-20.4%
7	Municipal - Unmetered	\$0	\$0	\$0	-
8	Subtotal	\$69,551,768	\$54,718,622	(\$14,833,146)	-21.3%
9	Other Revenue	\$673,250	\$673,250	\$0	0.0%
10	DSIC	\$3,477,588	<u>\$2,735,931</u>	(\$741,657)	-21.3%
11	TOTAL	<u>\$73,702,606</u>	<u>\$58,127,803</u>	<u>(\$15,574,803)</u>	-21.1%

Source: Sch. HJS-14WW

(\$15,616,222) Target
\$41,419 Difference

PITTSBURGH WATER AND SEWER AUTHORITY

Comparison of Net Unadjusted Stormwater Cost-of-Service Results
at PWSA's Claimed Stormwater Service Revenue Requirement
(FPFTY Test Period Ending December 31, 2022)

<u>Line</u>	<u>Stormwater Service</u>	PWSA Net Unadj. SW Cost of Service 1/ 1	PWSA Net Unadj. SW Cost of Service per Actual ERUs 2	PWSA Net Unadj. SW Cost of Service per Actual ERUs and CAP Admin. Costs Assigned to Res. 3	Cumulative Difference in Net Unadj. COS 4 = 3 - 1
1	Residential	\$13,691,244	\$14,308,234	\$14,374,341	\$683,097
2	Residential - CAP	496,705	491,075	489,413	(7,292)
3	Commercial	15,524,265	14,798,296	14,748,211	(776,054)
4	Industrial	210,915	280,524	279,575	68,660
5	Health / Education	1,579,572	1,372,529	1,367,883	(211,689)
6	Municipal	778,297	835,186	832,359	54,062
7	Other	1,559,271	1,754,424	1,748,486	189,215
8	Total Unadj. Water	<u>\$33,840,269</u>	<u>\$33,840,268</u>	<u>\$33,840,268</u>	<u>(\$1)</u>

Source: Exh. HJS-5SW

Rerun of PWSA
SWCOSSRerun of PWSA
SWCOSS

1/ Excludes Bad Debt Expense and Credits & Incentives.

PITTSBURGH WATER AND SEWER AUTHORITY

Comparison of Adjusted Stormwater Cost of Service Results
at PWSA's Claimed Stormwater Service Revenue Requirement
(FPFTY Test Period Ending December 31, 2022)

<u>Line</u>	<u>Stormwater Service</u>	PWSA Adj. SW Cost of <u>Service 1/</u> 1	OSBA Recommended SW Cost of <u>Service</u> 2	Difference in Adjusted SW Cost of <u>Service</u> 3 = 2 - 1
1	Residential	\$9,547,691	\$10,574,923	\$1,027,232
2	Residential - CAP	92,104	70,051	(22,053)
3	Commercial	11,129,194	10,164,461	(964,733)
4	Industrial	151,203	196,768	45,565
5	Health / Education	1,132,380	939,749	(192,631)
6	Municipal - Metered	557,953	601,531	43,578
7	Municipal - Unmetered	1,117,826	1,180,868	63,042
8	Total Unadj. Water	<u>\$23,728,351</u>	<u>\$23,728,351</u>	<u>\$0</u>

Source: Exh. HJS-5SW

Rerun of PWSA
SWCOSS

1/ Includes Bad Debt Expense, Credits & Incentives and Stormwater Subsidy of \$12.4 m.

PITTSBURGH WATER AND SEWER AUTHORITY

PWSA Proposed Allocation of its
Requested Increase in Base Rate Stormwater Service Revenues
(FPFTY Test Period Ending December 31, 2022)

Line	Classification	Present	Proposed	Proposed Increase	
		Base Revenue	Base Revenue	Amount	Percent
		1	2	3 = 2 - 1	4
1	Residential	\$0	\$9,707,824	\$9,707,824	100.0%
2	Residential - CAP	\$0	\$88,115	\$88,115	100.0%
3	Commercial	\$0	\$11,006,867	\$11,006,867	100.0%
4	Industrial	\$0	\$149,541	\$149,541	100.0%
5	Health / Education	\$0	\$1,119,933	\$1,119,933	100.0%
6	Municipal	\$0	\$551,821	\$551,821	100.0%
7	Other	<u>\$0</u>	<u>\$1,105,539</u>	<u>\$1,105,539</u>	100.0%
8	Subtotal	\$0	\$23,729,640	\$23,729,640	100.0%
9	Other Revenue	\$0	\$570,821	\$570,821	100.0%
10	DSIC	<u>\$0</u>	<u>\$0</u>	\$0	0.0%
11	TOTAL	<u>\$0</u>	<u>\$24,300,461</u>	<u>\$24,300,461</u>	100.0%

Source: Sch. HJS-7SW

\$24,299,172 Target
\$1,289 Difference

PITTSBURGH WATER AND SEWER AUTHORITY

Calculation of Actual Stormwater Cost of Service Subsidies
Based on PWSA's Proposed Stormwater Service Rate Design
(FPFTY Test Period Ending December 31, 2022)

<u>Line</u>	<u>Stormwater Service</u>	OSBA Recommended SW COS Excluding SW Subsidy 1/ 1	PWSA Proposed SW Base Rate Revenue 2	Actual SW Subsidy Based on PWSA Rate Design 2/ 3 = 2 - 1
1	Residential	\$15,972,768	\$9,707,824	(\$6,264,944)
2	Residential - CAP	118,692	88,115	(30,577)
3	Commercial	15,568,609	11,006,867	(4,561,742)
4	Industrial	299,212	149,541	(149,671)
5	Health / Education	1,440,978	1,119,933	(321,045)
6	Municipal - Metered	906,530	551,821	(354,709)
7	Other	1,821,561	1,105,539	(716,022)
8	Total Unadj. Water	<u>\$36,128,350</u>	<u>\$23,729,640</u>	<u>(\$12,398,710)</u>

Source: Rerun of PWSA Sch. BK-3SW
SWCOSS

1/ Includes Bad Debt Expense, Credits & Incentives but not the
Stormwater Subsidy of \$12.4 m.

2/ Does not equal \$12.4 m. due to rate design rounding.

REFERENCED INTERROGATORY RESPONSES

OSBA-I-9
OSBA-I-10

OSBA-II-3
OSBA-II-4
OSBA-II-5
OSBA-II-6

OSBA-III-6
OSBA-III-7
OSBA-III-10

OCA-V-4a
OCA-V-13

**Response of the Pittsburgh Water and Sewer Authority (“PWSA”)
to the Interrogatories of the Office of Consumer Advocate (“OCA”), Set I in
Docket Nos. R-2021-3024773 (water); R-2021-3024774 (wastewater)
and R-2021-3024779 (stormwater)**

Request: OSBA-I-9 Please provide a detailed explanation of how PWSA’s proposed Bill Discount Program (BDP) administrative costs are classified and allocated in the Company’s water, wastewater and stormwater class cost-of-service studies. Include a schedule that identifies each line item in the 2022 cost-of-service studies that includes BDP-related costs, and the amount of BDP costs included in each.

Response:

The Bill Discount Program (BDP) is administered by Dollar Energy Fund. The administration costs of the BDP are captured in the PWSA’s Customer Service department budget (GL Code 911-7383: Professional Services Other; Row 233 of the ‘911’ tab in the CCOSS Model). In addition to the costs of administering the BDP, Dollar Energy Fund also administers other components of the Customer Assistance Program (CAP). The actual and budgeted payments to Dollar Energy Fund for 2020-2022 are shown in the table below.

Year	Amount
<i>2020 Actual</i>	\$ 353,263
<i>2021 Budget</i>	\$ 302,200
<i>2022 Budget</i>	\$ 304,800

These costs are allocated in a manner consistent with other customer service related costs. First, they are allocated to the utilities by the number of customer bills. Then the costs are allocated to the Meter and Billing functional categories for water and wastewater, and ultimately the Meter and Billing rate components by 27.75% and 72.25%, respectively. Therefore, the administrative cost of the BDP is recovered through customer minimum charges for water and wastewater. For stormwater, these costs are recovered in the stormwater fee.

Response Provided by: Harold J. Smith, Vice President, Raftelis Financial Consultants
Consultant to The Pittsburgh Water and Sewer Authority

Dated: May 11, 2021

**Response of the Pittsburgh Water and Sewer Authority (“PWSA”)
to the Interrogatories of the Office of Consumer Advocate (“OCA”), Set I in
Docket Nos. R-2021-3024773 (water); R-2021-3024774 (wastewater)
and R-2021-3024779 (stormwater)**

Request: OSBA-I-10 Please provide a detailed derivation of the impact of PWSA’s lead service line replacement program on the Company’s claimed 2022 FPFTY revenue requirement. Identify where in PWSA’s FPFTY 2022 Cost of Service Study Model, i.e., tab and cell number, such lead service line replacement program costs are input/included.

Response:

PWSA’s lead service line replacement program has the following ongoing and new impacts in 2022:

- In the CCOSS Model, XstDebt tab, cell P78, \$1,598,131 of the PENNVEST debt is attributable to lead line replacements.
- In the CCOSS Model, XstDebt tab, cell P41, \$330,160 of the Series 2019A debt is attributable to lead line replacements.
- In the CCOSS Model, XstDebt tab, cell P44, \$2,328,471 of the Series 2020AB debt is attributable to lead line replacements.
- In the CCOSS Model, FutureDebt tab, cell Q101, \$1,799,658 of the FY 2020 PENNVEST loan is attributable to lead line replacements.

Response Provided by: Harold J. Smith, Vice President, Raftelis Financial Consultants
Consultant to The Pittsburgh Water and Sewer Authority
Edward Barca, Director of Finance
The Pittsburgh Water and Sewer Authority

Dated: May 11, 2021

**Response of the Pittsburgh Water and Sewer Authority (“PWSA”)
to the Interrogatories of the Office of Small Business Advocate (“OSBA”), Set II in
Docket Nos. R-2021-3024773 (water); R-2021-3024774 (wastewater)
and R-2021-3024779 (stormwater)**

Request: OSBA-II-3 Reference PWSA’s response to OSBA-I-8. Please provide a breakdown of the Total Impervious Area (SF) that underpins PWSA’s stormwater units of service, by customer class.

Response:

See attachment OSBA-II-3 SW Units of Service.

It is important to note that the traditional water and wastewater customer classes are not applicable for stormwater cost of service. For water and wastewater, customer classes are differentiated by behavior (peaking or strength) that is typically different from one class to another. However, for stormwater, all customers are billed based on the same unit of service, an Equivalent Residential Unit, or 1650 sq. ft. of impervious area. PWSA has decided to implement 3 tiers for single family residential parcels, and because of this, the data is broken down by single family residential (SFR) or non-singled family residential (NSFR). The only other categories necessary in the stormwater cost of service analysis are customers with existing water/wastewater accounts and customers that are classified as stormwater only (no existing water/wastewater account) because this has a direct link to collections and the estimated bad debt expense.

Response Provided by: Keith Readling, Executive Vice President, Raftelis Financial Consultants
Consultant to The Pittsburgh Water and Sewer Authority

Dated: June 3, 2021

**Response of the Pittsburgh Water and Sewer Authority (“PWSA”)
to the Interrogatories of the Office of Small Business Advocate (“OSBA”), Set II in
Docket Nos. R-2021-3024773 (water); R-2021-3024774 (wastewater)
and R-2021-3024779 (stormwater)**

Request: OSBA-II-4 Please provide the date (i.e., month and year) that PWSA’s original BDP began providing discounts to eligible residential customers. For each of the first twelve months that the original BDP operated, please provide (i) the number of residential bills receiving a discount, and (ii) the aggregate amount of the applicable discounts for the month.

Response:

2018	(i) Number of Bills	(ii) Total Amount of Discounts
January	71	\$681.11
February	726	\$6,342.20
March	1,127	\$10,902.57
April	1,175	\$11,996.28
May	1,242	\$13,103.48
June	1,279	\$13,618.46
July	1,311	\$14,114.14
August	1,347	\$14,567.11
September	1,377	\$15,031.47
October	1,419	\$15,704.97
November	1,420	\$16,127.51
December	1,542	\$17,156.67

Response Provided by: Julie A. Quigley, Director of Customer Service
The Pittsburgh Water and Sewer Authority

Dated: June 3, 2021

**Response of the Pittsburgh Water and Sewer Authority (“PWSA”)
to the Interrogatories of the Office of Small Business Advocate (“OSBA”), Set II in
Docket Nos. R-2021-3024773 (water); R-2021-3024774 (wastewater)
and R-2021-3024779 (stormwater)**

Request: OSBA-II-5 Reference the *Assets* tab in PWSA’s Cost of Service Study Model 4.13.21. Please breakout the asset value of PWSA-owned water service lines from the Authority’s total claimed water assets of \$452.8 million. Note that the requested breakout should separately identify the asset value of PWSA-owned water service lines that were (i) installed as part of PWSA’s LSLR program and (ii) not otherwise related to PWSA’s LSLR program. Include a copy of all associated workpapers.

Response:

Please see cell D37 in OSBA-II-5 Attach A Depreciation Study for the total value of the transmission and distribution mains. This file is from the workpapers of the most recent Depreciation Study completed by Gannett Fleming.

See OSBA-II-5 Attach B LSLR for the value of transmission and distribution mains that were installed as part of the LSLR program.

Response Provided by: Edward Barca, Director of Finance
The Pittsburgh Water and Sewer Authority

Dated: June 3, 2021

**Response of the Pittsburgh Water and Sewer Authority (“PWSA”)
to the Interrogatories of the Office of Small Business Advocate (“OSBA”), Set II in
Docket Nos. R-2021-3024773 (water); R-2021-3024774 (wastewater)
and R-2021-3024779 (stormwater)**

Request: OSBA-II-6 Reference PWSA’s response to OSBA-I-11.

- a. What is the total estimated annual volume of Infiltration and Inflow (“I&I”) on PWSA’s sanitary only wastewater conveyance system?
- b. What is the total estimated annual flow, i.e., wastewater and I&I, on PWSA’s sanitary only wastewater conveyance system?

Response:

The requested data is not available. However, PWSA is working on I&I locally throughout the system. To target “I/I” areas in sanitary sewersheds, PWSA is utilizing the results from the December 2017, Source Reduction Study, see CONFIDENTIAL OSBA-II-6. The approach to evaluating the PWSA’s sanitary sewer system focused on using the ALCOSAN collection system model to understand the cause/effect relationship between sanitary sewer improvements and overflow reductions. The entire PWSA sanitary sewer area was prioritized by ranking the sanitary sewersheds by inflow point volumes and selecting the top 25 areas that have a significant effect on overall typical year volumes. Figure 3-10 and Figure 3-11 included in CONFIDENTIAL OSBA-II-6 Attachment A, illustrate the computed ranges of annual I/I volumes in the top 25 sanitary sewersheds and the computed ranges of peak monthly R-values for the top 25 sanitary sewersheds, respectively.

Response Provided by: Barry King, PE, Director of Engineering
The Pittsburgh Water and Sewer Authority

Dated: June 3, 2021

**Response of the Pittsburgh Water and Sewer Authority (“PWSA”)
to the Interrogatories of the Office of Small Business Advocate (“OSBA”), Set III in
Docket Nos. R-2021-3024773 (water); R-2021-3024774 (wastewater)
and R-2021-3024779 (stormwater)**

Request: OSBA-III-6 Reference page 26 of PWSA Statement No. 6, at lines 20-22. Please identify where in PWSA's FPFTY 2022 Cost of Service Study Model, i.e., tab and cell number, such Hardship Grant funding costs are reflected/included.

Response:

The Hardship Grant funding costs are reflected as a revenue requirement within the “Other Transfers to Reserves” (Line 62 on the RevReq Tab) (\$1,000,000). The portion of this line item transferred to the Hardship Grant fund (\$100,000) is demonstrated on the FundBals tab, Line 16.

Response Provided by: Harold J. Smith, Vice President, Raftelis Financial Consultants
Consultant to The Pittsburgh Water and Sewer Authority

Dated: July 1, 2021

**Response of the Pittsburgh Water and Sewer Authority (“PWSA”)
to the Interrogatories of the Office of Small Business Advocate (“OSBA”), Set III in
Docket Nos. R-2021-3024773 (water); R-2021-3024774 (wastewater)
and R-2021-3024779 (stormwater)**

Request: OSBA-III-7 Reference page 26 of PWSA Statement No. 7, at lines 15-24. Has PWSA estimated the number of non-residential properties that currently meet either the 2016 or 2019 City of Pittsburgh stormwater standards? If so, please provide a breakdown of the expected amount of annual credits such properties would be qualified to earn under PWSA's proposed credit program, by the 2016 and 2019 standards. Provide information that includes (i) the number of properties, by standard year, and (ii) the annual stormwater fee owed before and after eligible credits.

Response:

No, PWSA has not estimated the number of non-residential properties that currently meet either the 2016 or 2019 City of Pittsburgh stormwater standards. It should also be noted that it is likely that not all impervious area on a property will be treated. Most of the properties that do meet the standards will do so for treatment of only a portion of their impervious area due to the prevalence of incremental development and redevelopment, instead of “greenfield” development.

Response Provided by: Tony Igwe, Senior Group Manager – Stormwater
The Pittsburgh Water and Sewer Authority

Dated: July 1, 2021

**Response of the Pittsburgh Water and Sewer Authority (“PWSA”)
to the Interrogatories of the Office of Small Business Advocate (“OSBA”), Set III in
Docket Nos. R-2021-3024773 (water); R-2021-3024774 (wastewater)
and R-2021-3024779 (stormwater)**

Request: OSBA-III-10 Reference PWSA's response to OCA-V-4(a). Is PWSA aware of any other regulated utility in the Commonwealth of Pennsylvania that is permitted to automatically increase any of its Miscellaneous Charges, Fees or Penalties for the annual change in the Consumer Price Index between base rate case proceedings? If so, please identify all such regulated utilities.

Response:

PWSA is not aware of the ability of other regulated utilities in the Commonwealth to adjust miscellaneous fees on the basis of a changing Consumer Price Index. However, PWSA has not extensively researched this issue. I am also advised by counsel that 66 Pa.C.S. §1330(b) permits the Commission to approve alternative rate mechanisms. PWSA is not proposing any change to its current Commission approved tariffs which permit adjustment annually for increases in the annual Consumer Price Index for the Pittsburgh Area. *See, e.g.,* Tariff Water – Pa. P.U.C. No. 1 Original Page 14 effective March 1, 2019.

Response Provided by: Julie A. Quigley

Dated: July 1, 2021

**Response of the Pittsburgh Water and Sewer Authority (“PWSA”)
to the Interrogatories of the Office of Consumer Advocate (“OCA”), Set V in
Docket Nos. R-2021-3024773 (water); R-2021-3024774 (wastewater)
and R-2021-3024779 (stormwater)**

Request: OCA-V-4 Reference: PWSA Exh. JAQ-4 (redline water tariff), First Revised page 14 through Original Page 15F; PWSA Exh. JAQ-6 (redline wastewater tariff), First Revised page 14 through Original Page 14B; and PWSA Exh. TI-4, Original Pages 13-16. Concerning Section H - Miscellaneous Charges, Fees, and Penalties:

- a. Does PWSA intend to automatically increase each of the charges, fees, and penalties shown on these pages by the annual change in the Consumer Price Index as stated at the beginning of Section H of each tariff? If not, please identify the items to which the inflation provision applies.
- b. Please explain in detail why PWSA believes that the costs associated with each of the charges, fees, and penalties changes annually with the rate of inflation, particularly in light of the fact that some of the charges are proposed to be reduced from their current level.
- c. Please describe in detail the tasks performed by, or on behalf of, PWSA for Easement Recording that result in a fee of \$3,700.00 (water tariff). Why is there no comparable charge in the wastewater tariff?
- d. For each of the permits shown in Section H.4 (Activities Related to Permits / Approvals Issued by PWSA) of each tariff please state whether a prospective customer applying for both water and wastewater service would pay one fee or two fees, and explain the reasons for the answer.
- e. Please explain the circumstances under which a wastewater or stormwater customer would apply for a Termination Only Permit (Section H.4.c).
- f. Please review the activities listed in section H.4 of the stormwater tariff and indicate which of those (if any) should be removed from the stormwater tariff because they do not related to stormwater service.

Response:

- a. Yes, PWSA intends to automatically increase the charges in Section H annually as indicated. This is not a new provision. This provision was included in the previous version of the tariff (current tariff).
- b. PWSA believes the costs associated with these fees should change annually based on the rate of inflation because the fees are developed based on the labor, vehicles, and

**Response of the Pittsburgh Water and Sewer Authority (“PWSA”)
to the Interrogatories of the Office of Consumer Advocate (“OCA”), Set V in
Docket Nos. R-2021-3024773 (water); R-2021-3024774 (wastewater)
and R-2021-3024779 (stormwater)**

Request: OCA-V-13 Reference: PWSA St. 8 (Reading), p. 5, lines 6-9. Please provide the documents and/or data from Northeast Ohio Regional Sewer District and Philadelphia Water Department on which the witness relied to determine the stormwater-only collection rate.

Response:

NEORS D information was pulled from the data warehouse at the NEORS D and provided in a spreadsheet which is shown here:

A	B	C	D
Year	SWO Net Billed	SWO Net Collected	SWO Collection %
2017	\$ 11,370.22	\$ 6,590.62	58%
2018	\$ 2,415,766.87	\$ 1,913,531.09	79%
2019	\$ 4,296,145.75	\$ 3,964,746.30	92%
2020	\$ 4,346,772.96	\$ 3,882,961.84	89%

Philadelphia Water Department data can be found in their rate proceeding documents, at <https://www.phila.gov/media/20210115161930/PWD-Statement-No.-6-Direct-Testimony-and-Schedules-of-Raftelis.pdf> (refer to pages 1 and 2 of RFC Schedule 6, which are pages 214 and 215 of the PDF document).

Because this is the first time billing stormwater only customers, PWSA does not have its own collection data available. In future years, collection rates will be adjusted to reflect PWSA’s own collection data.

Response Provided by: Keith Reading, Executive Vice President, Raftelis Financial Consultants
Consultant to The Pittsburgh Water and Sewer Authority

Dated: May 27, 2021

APPENDIX

APPENDIX

Qualifications of Brian Kalcic

Mr. Kalcic graduated from Benedictine University with a Bachelor of Arts degree in Economics in December 1974. In May 1977 he received a Master of Arts degree in Economics from Washington University, St. Louis. In addition, he has completed all course requirements at Washington University for a Ph.D. in Economics.

From 1977 to 1982, Mr. Kalcic taught courses in economics at both Washington University and Webster University, including Microeconomic and Macroeconomic Theory, Labor Economics and Public Finance.

During 1980 and 1981, Mr. Kalcic was a consultant to the Equal Employment Opportunity Commission, St. Louis District Office. His responsibilities included data collection and organization, statistical analysis and trial testimony.

From 1982 to 1996, Mr. Kalcic was employed by the firm of Cook, Eisdorfer & Associates, Inc. During that time, he participated in the analysis of electric, gas and water utility rate case filings. His primary responsibilities included cost-of-service and economic analysis, model building, and statistical analysis.

In March 1996, Mr. Kalcic founded Excel Consulting, a consulting practice that offers business and regulatory analysis.

Mr. Kalcic has previously testified before the state regulatory commissions of Delaware, Indiana, Kansas, Kentucky, Maine, Massachusetts, Minnesota, Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, and Texas, and also before the Bonneville Power Administration.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :
: **Docket No. R-2021-3024773**
v. : **Docket No. R-2021-3024774**
: **Docket No. R-2021-3024779**
:
The Pittsburgh Water and Sewer Authority :

VERIFICATION

I, Brian Kalcic, hereby state that the facts set forth in my direct testimony labeled OSBA Statement No. 1 are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. §4904 (relating to unsworn falsification to authorities).

Date: July 7, 2021



(Signature)

Brian Kalcic

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :
: **Docket No. R-2021-3024773 (water)**
v. : **Docket No. R-2021-3024774(wastewater)**
: **Docket No. R-2021-3024779(stormwater)**
Pittsburgh Water & Sewer Authority :

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email (*unless other noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

Christine M. Hoover, Esq.
Erin L. Gannon, Esq.
Lauren E. Guerra, Esq.
Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101
choover@paoca.org
lguerra@paoca.org
egannon@paoca.org
(*Counsel for OCA*)

The Honorable Eranda Vero
Administrative Law Judge
Pennsylvania Public Utility Commission
Suite 4063, 801 Market Street
Philadelphia, PA 19107
evero@pa.gov

Gina L. Miller, Esq.
Bureau of Investigation and Enforcement
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120
ginmiller@pa.gov
(*Counsel for BIE*)

Peter J. DeMarco, Esq.
Natural Resources Defense Council
1152 15th Street NW, Ste. 300
Washington, DC 20005
Telephone: 202-289-2385
pdemarco@nrdc.org

Thomas J. Sniscak, Esq.
Whitney E. Snyder, Esq.
Kevin J. McKeon, Esq.
Hawke, McKeon & Sniscak LLP
100 North Tenth Street
Harrisburg, PA 17101
tjsniscak@hmslegal.com
wesnyder@hmslegal.com
kjmckeon@hmslegal.com

John F. Doherty, Esq.
Yvonne Hilton, Esq.
Lawrence H. Baumiller, Esq.
City of Pittsburgh Department of Law
313 City-County Building
414 Grant Street
Pittsburgh, PA 15219
yvonne.hilton@pittsburghpa.gov
john.doherty@pittsburghpa.gov
lawrence.baumiller@pittsburghpa.gov

Jared J. Thompson, Esq.
Natural Resources Defense Council
1152 15th Street NW, Ste. 300
Washington, DC 20005
Telephone: (202) 513-6249
jared.thompson@nrdc.org

Daniel Clearfield, Esq.
Deanne M. O'Dell, Esq.
Karen Moury, Esq.
Sarah Stoner, Esq.
Eckert Seamans Cherin & Mellott, LLC
213 Market Street, 8th Floor
Harrisburg, PA 17101
dodell@eckertseamans.com
dclearfield@eckertseamans.com
kmoury@eckertseamans.com
SStoner@eckertseamans.com

Ria M. Pereira, Esquire
Elizabeth R. Marx, Esquire
John W. Sweet, Esquire
Lauren N. Berman, Esquire
Pennsylvania Utility Law Project
118 Locust Street
Harrisburg, PA 17101
pulp@palegalaid.net

/s/ Erin K. Fure

Erin K. Fure
Assistant Small Business Advocate
Attorney ID No. 312245

DATE: July 8, 2021



COMMONWEALTH OF PENNSYLVANIA

July 29, 2021

The Honorable Eranda Vero
Administrative Law Judge
Pennsylvania Public Utility Commission
Suite 4063, 801 Market Street
Philadelphia, PA 19107

Re: Pittsburgh Water and Sewer Authority 2021 Rate Filing / Docket Nos. R-2021-3024773 (water), R-2021-3024774 (wastewater); R-2021-3024779 (stormwater)

Dear Judge Vero:

Enclosed please find the Rebuttal Testimony and Exhibits of Brian Kalcic, labeled OSBA Statement No. 1-R, on behalf of the Office of Small Business Advocate (“OSBA”), in the above-captioned proceedings.

As evidenced by the enclosed Certificate of Service, all known parties will be served, as indicated.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Erin K. Fure

Erin K. Fure
Assistant Small Business Advocate
Attorney ID No. 312245

Enclosures

cc: PA PUC Secretary Rosemary Chiavetta (Cover Letter & Certificate of Service only)
Brian Kalcic
Parties of Record

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION :
:
:
v. : **Docket No. R-2021-3024773**
:
:
:
:
PITTSBURGH WATER AND SEWER AUTHORITY :

Rebuttal Testimony and Exhibit of

BRIAN KALCIC

On Behalf of the

Pennsylvania Office of Small Business Advocate

Topics:

**Stormwater Subsidy
Stormwater Rate Design**

Date Served: July 29, 2021

Date Submitted for the Record: _____

Rebuttal Testimony of Brian Kalcic

1 **Q. Please state your name and business address.**

2 A. Brian Kalcic, 225 S. Meramec Avenue, Suite 720, St. Louis, Missouri 63105.

3

4 **Q. Have you previously submitted direct testimony in this proceeding?**

5 A. Yes.

6

7 **Q. What is the subject of your rebuttal testimony?**

8 A. I will respond to the direct testimony of the following witnesses: 1) Scott J. Rubin
9 on behalf of the OCA; and 2) Michele C.W. Adams on behalf of Pittsburgh
10 UNITED.

11

12 **Q. Before proceeding with your rebuttal, do you have any preliminary comments
13 regarding Exhibit BK-1 that you sponsored in direct testimony?**

14 A. Yes. In response to discovery from UNITED, I discovered an error in PWSA's
15 allocation of stormwater bad debt expense that carried over to the OSBA's
16 recommended SWCOSS.¹ Upon correcting the error, I find that three of the
17 schedules contained in Exhibit BK-1 must be revised, namely, Schedules BK-2SW,
18 BK-4SW and BK-4WW. I have included such revised schedules in the attached
19 Exhibit BK-1R.

20

¹ See the OSBA's response to UNITED-OSBA-I-2.

1 **OCA Witness Rubin**

2 **Q. On pages 23-26 of OCA Statement 3, Mr. Rubin discusses PWSA’s proposal to**
3 **recover \$12.4 million of its claimed stormwater revenue requirement from**
4 **wastewater service customers. While Mr. Rubin agrees “it is reasonable to**
5 **have a short transition period where some stormwater costs continue to be**
6 **recovered through wastewater rates,” he does not agree that an initial**
7 **stormwater subsidy of \$12.4 million is reasonable. Instead, Mr. Rubin**
8 **recommends that PWSA’s stormwater fee be set at \$10.00 per ERU (up from**
9 **the \$7.95 per ERU proposed by PWSA) so as to reduce the aggregate**
10 **stormwater subsidy paid by wastewater customers to approximately \$7.27**
11 **million. Do you have any comment?**

12 **A.** Yes. As evidenced by the fact that I did not oppose PWSA’s proposed stormwater
13 subsidy in direct testimony, the OSBA agrees that there should be a transition
14 period where stormwater rates are designed to recover less than 100% of PWSA’s
15 approved stormwater revenue requirement. As customers become more familiar
16 with stormwater rates – and the underlying rationale for such charges, PWSA can
17 transition stormwater charges to full cost of service.

18 As to the OCA’s proposed subsidy, as an initial matter, I don’t find Mr.
19 Rubin’s estimate of the alternative subsidy to be paid by wastewater customers
20 (\$7.27 million) is entirely accurate. Table 1-R below provides a comparison of the
21 stormwater subsidy to be paid by wastewater customers under the PWSA and OCA
22 proposals.

Rebuttal Testimony of Brian Kalcic

1 As shown in column 1 of Table 1-R, the gross stormwater subsidy under
 2 PWSA’s proposal is \$13.7 million, but the reduction in PWSA’s stormwater
 3 revenue requirement produces savings in the form of lower Bad Debt Expense and
 4 Credit and Incentive Program costs, which reduce the net cost of the subsidy (paid
 5 by wastewater customers) to \$12.4 million. Stated differently, eliminating 100% of
 6 PWSA’s proposed stormwater subsidy of \$12.4 million would i) decrease
 7 wastewater rates by \$12.4 million, but ii) increase stormwater rates by \$13.7
 8 million. The end result would be an increase in PWSA’s aggregate revenue
 9 requirement claim of (\$13.7 million minus \$12.4 million) \$1.3 million.

Table 1-R

Comparison of the Stormwater Subsidy Paid by
 Wastewater Customers under the PWSA and OCA Proposals
 (\$ millions)

	PWSA Proposal	OCA Proposal
	(1)	(2)
PWSA SW Revenue Req.	\$37.449	\$37.449
Net SW Revenues 1/	<u>\$23.728</u>	<u>\$29.865</u>
Gross SW Subsidy	\$13.721	\$7.584
<u>less</u>		
Bad Debt Savings	\$0.919	\$0.502
Credit/Incent. Prog. Savings	<u>\$0.402</u>	<u>\$0.223</u>
SW Subsidy Paid by WW	\$12.400	\$6.859

16 Source: Exhibits HJS-2SW, HJS-5SW, and HJS-6SW.

17 1/ After BDP discounts.

Rebuttal Testimony of Brian Kalcic

1 Turning to column 2 of Table 1-R, the gross stormwater subsidy under the
2 OCA's proposal is \$7.6 million. After accounting for the savings associated with
3 Bad Debt Expense and Credit and Incentive Program costs, the net cost of the
4 subsidy (paid by wastewater customers) under the OCA's proposal is \$6.86 million
5 rather than Mr. Rubin's estimated \$7.27 million.

6

7 **Q. What do you conclude from Table 1-R?**

8 A. Table 1-R shows that the OCA's proposed stormwater rate of \$10.00 per ERU
9 would reduce PWSA's proposed stormwater subsidy by approximately 45%, from
10 \$12.4 million to \$6.86 million.

11

12 **Q. How much would wastewater customers save under the OCA's proposal?**

13 A. Wastewater customers would save (\$12.4 million minus \$6.86 million or) \$5.54
14 million.

15

16 **Q. How much more would stormwater customers pay under the OCA's proposal?**

17 A. Stormwater customers would pay an additional \$5.54 million plus an increase in
18 Bad Debt Expense and Credit/Incentive Programs costs of \$0.6 million, or \$6.14
19 million.²

20

21 **Q. Given the above discussion, do you find the OCA's proposed reduction in**
22 **PWSA's proposed stormwater subsidy reasonable?**

Rebuttal Testimony of Brian Kalcic

1 A. I find the OCA's proposal to be *acceptable*, in the sense that \$6.86 million should
2 be deemed the minimum stormwater subsidy appropriate for this proceeding. As
3 previously noted, the OCA's proposed stormwater subsidy would save wastewater
4 customers \$5.54 million but cost stormwater customers \$6.14 million, or
5 approximately \$1.11 for every \$1.00 the subsidy is reduced. In my view, any
6 further reduction in PWSA's proposed stormwater would undermine the primary
7 purpose of the subsidy, which is to mitigate stormwater rate impacts and to
8 facilitate customer acceptance of the new rate structure.

9

10 **Q. On pages 26-29 of his direct testimony, Mr. Rubin discusses PWSA's proposed**
11 **stormwater tiers for residential properties and recommends certain changes to**
12 **the Authority's proposed tiered rate structure. Mr. Rubin estimates that his**
13 **proposed changes would result in a reduction of approximately 5,400 ERUs**
14 **billed to residential properties, compared to PWSA's proposed rate design. At**
15 **the OCA's proposed stormwater rate of \$10 per ERU, Mr. Rubin states that**
16 **the OCA's proposed residential rate structure would necessitate a \$650,000**
17 **increase in the stormwater subsidy provided by wastewater customers. Do you**
18 **have any comment?**

19 A. Yes. Absent an increase in the stormwater subsidy, Mr. Rubin's proposal would
20 necessitate an increase in the stormwater rate (due to fewer billed ERUs over which
21 to recover PWSA's stormwater revenue requirement), and an inappropriate shift in
22 stormwater revenue responsibility from residential to non-residential stormwater

² The incremental Bad Debt Expense and Credit/Incentive Program costs under the OCA's proposal are

1 customers. More specifically, residential ERUs as a percentage of total billed
2 ERUs would decline 1.3% under Mr. Rubin's proposal. Absent an increase in the
3 stormwater subsidy, non-residential stormwater customers would be allocated an
4 additional 1.3% of PWSA's claimed stormwater revenue requirement.

5 As Mr. Rubin's proposal stands, a \$650,000 increase in the stormwater
6 subsidy would be leave the total stormwater revenues paid by non-residential
7 customers unchanged, while the total stormwater revenues contributed by
8 residential customers would decline by \$650,000.

9
10 **Q. Does the OSBA oppose Mr. Rubin's proposal to modify PWSA's residential**
11 **stormwater rate structure?**

12 A. The OSBA does not oppose the OCA's proposal as long as the additional
13 stormwater subsidy necessitated by the proposal is recovered from *residential*
14 wastewater customers.

15
16 **Q. Is that condition consistent with your recommendation to recover any**
17 **approved stormwater subsidy from wastewater customers on a revenue**
18 **neutral basis, by customer class?**

19 A. Yes, it is. Mr. Rubin's proposal to modify PWSA's residential rate tiers does not
20 change the actual amount of impervious area measured on residential properties, or
21 the Authority's underlying cost of serving residential stormwater customers.

22 However, the OCA's recommended rate structure would result in a reduction in

given by the difference in the aggregate savings levels for these items across columns 1 and 2 of Table 1-R.

1 residential stormwater revenues, along with a commensurate increase in the subsidy
2 received by residential stormwater customers. Such additional stormwater
3 subsidies should be paid for by residential wastewater customers.

4

5 **Pittsburgh UNITED Witness Adams**

6 **Q. On page 23 of her direct testimony, Ms. Adams recommends that PWSA**
7 **eliminate or phase out its proposed stormwater subsidy as quickly as possible**
8 **to ensure that customers are charged fair and equitable rates for stormwater**
9 **service. Do you agree?**

10 A. Only in part. As I previously indicated, I would agree that any stormwater subsidy
11 approved in this proceeding should be temporary in nature, and that stormwater
12 customers should pay cost-based rates for stormwater service at some point in the
13 not-too-distant future. However, I do not agree that it would be appropriate to
14 eliminate 100% of the proposed subsidy in this case.

15 First, as discussed above, eliminating 100% of the subsidy in this
16 proceeding would *save* wastewater customers \$12.4 million but *cost* stormwater
17 customers \$13.7 million. In the OSBA's view, it would not be prudent to burden
18 stormwater customers with an additional \$1.3 million of revenue responsibility in
19 the proceeding that initially establishes a stormwater charge.

20 Second, as discussed on pages 44-45 of OSBA Statement No. 1, it is not
21 possible to set stormwater rates at cost of service, by customer class, using a rate
22 structure that employs a *uniform* rate per ERU for all customers. As such,

Rebuttal Testimony of Brian Kalcic

1 eliminating 100% of PWSA's proposed stormwater subsidy in the case would
2 necessitate establishing separate stormwater rates, by customer class.

3 Third, I agree with both PWSA and OCA that it is important to assist
4 ratepayers as they transition from a utility paradigm consisting of water and
5 wastewater rates to one that consists of water, wastewater and stormwater rates. To
6 do so, a reasonable stormwater subsidy must be approved in this proceeding.

7

8 **Q. Does this conclude your rebuttal testimony?**

9 A. Yes.

EXHIBIT BK-1R

Schedule BK-2SW Corrected

Schedule BK-4SW Corrected

Schedule BK-4WW Corrected

PITTSBURGH WATER AND SEWER AUTHORITY

Comparison of Adjusted Stormwater Cost of Service Results
at PWSA's Claimed Stormwater Service Revenue Requirement
(FPFTY Test Period Ending December 31, 2022)

<u>Line</u>	<u>Stormwater Service</u>	PWSA Adj. SW Cost of <u>Service 1/</u> 1	OSBA Recommended SW Cost of <u>Service</u> 2	Difference in Adjusted SW Cost of <u>Service</u> 3 = 2 - 1
1	Residential	\$9,263,920	\$10,011,564	\$747,644
2	Residential - CAP	81,809	70,857	(10,952)
3	Commercial	11,361,490	10,604,063	(757,427)
4	Industrial	154,359	202,461	48,102
5	Health / Education	1,156,015	982,458	(173,557)
6	Municipal - Metered	569,599	608,329	38,730
7	Municipal - Unmetered	1,141,158	1,248,618	107,460
8	Total Unadj. Water	<u>\$23,728,350</u>	<u>\$23,728,350</u>	<u>\$0</u>

Source: Exh. HJS-5SW
Corrected

Corrected
Rerun of PWSA
SWCOSS

1/ Includes Bad Debt Expense, Credits & Incentives and Stormwater Subsidy of \$12.4 m.

PITTSBURGH WATER AND SEWER AUTHORITY

Calculation of Actual Stormwater Cost of Service Subsidies
Based on PWSA's Proposed Stormwater Service Rate Design
(FPFTY Test Period Ending December 31, 2022)

<u>Line</u>	<u>Stormwater Service</u>	OSBA Recommended SW COS Excluding SW Subsidy 1/ 1	PWSA Proposed SW Base Rate Revenue 2	Actual SW Subsidy Based on PWSA Rate Design 2/ 3 = 2 - 1
1	Residential	\$15,409,409	\$9,707,824	(\$5,701,585)
2	Residential - CAP	119,498	88,115	(31,383)
3	Commercial	16,008,211	11,006,867	(5,001,344)
4	Industrial	304,905	149,541	(155,364)
5	Health / Education	1,483,687	1,119,933	(363,754)
6	Municipal - Metered	913,328	551,821	(361,507)
7	Other	1,889,311	1,105,539	(783,772)
8	Total Unadj. Water	<u>\$36,128,349</u>	<u>\$23,729,640</u>	<u>(\$12,398,709)</u>

Corrected
Source: Rerun of PWSA Sch. BK-3SW
SWCOSS

1/ Includes Bad Debt Expense, Credits & Incentives but not the
Stormwater Subsidy of \$12.4 m.

2/ Does not equal \$12.4 m. due to rate design rounding.

PITTSBURGH WATER AND SEWER AUTHORITY

OSBA Recommended Allocation of PWSA's
Requested Adjustment in Base Rate Wastewater Service Revenues
(FPFTY Test Period Ending December 31, 2022)

<u>Line</u>	<u>Classification</u>	Present Base Revenue 1	OSBA Recomm. Base Revenue 2	Recommended Increase	
				Amount 3 = 2 - 1	Percent 4
1	Residential	\$29,254,362	\$24,837,527	(\$4,416,835)	-15.1%
2	Residential - CAP	\$1,495,850	\$1,245,621	(\$250,229)	-16.7%
3	Commercial	\$26,322,087	\$20,363,670	(\$5,958,417)	-22.6%
4	Industrial	\$1,506,117	\$1,070,150	(\$435,967)	-28.9%
5	Health / Education	\$10,042,474	\$6,432,143	(\$3,610,331)	-36.0%
6	Municipal - Metered	\$930,878	\$758,229	(\$172,649)	-18.5%
7	Municipal - Unmetered	\$0	\$0	\$0	-
8	Subtotal	\$69,551,768	\$54,707,340	(\$14,844,428)	-21.3%
9	Other Revenue	\$673,250	\$673,250	\$0	0.0%
10	DSIC	\$3,477,588	<u>\$2,735,367</u>	(\$742,221)	-21.3%
11	TOTAL	<u>\$73,702,606</u>	<u>\$58,115,957</u>	<u>(\$15,586,649)</u>	-21.1%

Source: Sch. HJS-14WW

Corrected per
UNITED-OSBA-I-2e

(\$15,616,222) Target
\$29,573 Difference

REFERENCED INTERROGATORY RESPONSES

UNITED-OSBA-I-2

***Parts of the Interrogatory Response that are in Excel Spreadsheet form will be
emailed simultaneous to service of Rebuttal Testimony***

PITTSBURGH WATER AND SEWER AUTHORITY

Docket Nos. R-2021-3024773, R-2021-3024774 & R-2021-3024779

Responses of the Office of Small Business Advocate
to Pittsburgh United's Interrogatories

Set I

Witness: Brian Kalcic

UNITED-OSBA-I-2 See OSBA St. 1, at 40:1-3 (describing PWSA's proposal to include stormwater-only (SWO) bad debt expenses of \$1.2 million) and 42:11-12 (describing PWSA's proposal to allocate \$0.42 million in non-stormwater only (NSWO) bad debt expenses), and the OSBA workpaper "PWSA Cost of Service Study Model 4.13.21 OSBA FINAL(100523260)", Tab "SW>RateDesign" (hereinafter, "the spreadsheet," for purposes of this interrogatory).

- a. Cells D64 and E64 of the spreadsheet label \$1,175,583 of bad debt expense as NSWO. In light of OSBA St. 1, at 40:1-3, is that a typo such that this bad debt expense should be labeled SWO?
- b. Cells D65 and E65 of the spreadsheet label \$415,814 of bad debt expense as SWO. In light of OSBA St. 1, at 42:11-12, is that a typo such that this bad debt expense should be labeled NSWO?
- c. If the answer to UNITED I-2(a) is yes or in the affirmative, such that row 64 actually shows SWO bad debt expenses, should the allocations in row 64 be recalculated in light of OSBA St. 1, at 42:8 – 43:8 (discussing OSBA's proposed methods for allocating SWO and NSWO bad debt expenses)?
- d. If the answer to UNITED I-2(b) is yes or in the affirmative, such that row 65 actually shows NSWO bad debt expenses, should the allocations in row 65 be recalculated in light of OSBA St. 1, at 42:8 – 43:8 (discussing OSBA's proposed methods for allocating SWO and NSWO bad debt expenses)?
- e. If the answers to UNITED I-2(a), (b), (c), and/or (d) are yes or in the affirmative, please provide corrections to schedules BK-1SW through BK-4SW, if any, and an updated Excel Cost of Service Study Model that reflects OSBA's proposed adjustments.

PITTSBURGH WATER AND SEWER AUTHORITY

Docket Nos. R-2021-3024773, R-2021-3024774 & R-2021-3024779

Responses of the Office of Small Business Advocate
to Pittsburgh United's Interrogatories

Set I

Witness: Brian Kalcic

- Response:
- a. Yes. The cited row is mislabeled in PWSA's filed COSS model, and the mislabeling carried over to the OSBA's recommended COSS model.
 - b. Yes. The cited row is mislabeled in PWSA's filed COSS model, and the mislabeling carried over to the OSBA's recommended COSS model.
 - c. Yes. Due to mislabeling, the allocations in row 64 should be recalculated in the OSBA's recommended COSS model. For the same reason, Mr. Kalcic notes that the allocations in (corresponding) row 60 should be recalculated in PWSA's filed COSS model.
 - d. Yes. Due to mislabeling, the allocations in row 65 should be recalculated in the OSBA's recommended COSS model. For the same reason, Mr. Kalcic notes that the allocations in (corresponding) row 61 should be recalculated in PWSA's filed COSS model.
 - e. Please see the file labeled Attachment United-OSBA-I-2e.pdf for corrected versions of Schedules BK-2SW and BK-4SW. There are no changes to Schedules BK-1SW or BK-3SW. Also attached is an updated OSBA COSS model reflecting the changes identified in response to parts c & d above.

PITTSBURGH WATER AND SEWER AUTHORITY

Comparison of Adjusted Stormwater Cost of Service Results
at PWSA's Claimed Stormwater Service Revenue Requirement
(FPFTY Test Period Ending December 31, 2022)

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2	Residential - CAP	81,809	70,857	(10,952)
3	Commercial	11,361,490	10,604,063	(757,427)
4	Industrial	154,359	202,461	48,102
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6	Municipal - Metered	569,599	608,329	38,730
7	Municipal - Unmetered	1,141,158	1,248,618	107,460
8	Total Unadj. Water	<u>\$23,728,350</u>	<u>\$23,728,350</u>	<u>\$0</u>

Source: Exh. HJS-5SW
Corrected
Corrected

Corrected
Rerun of PWSA
SWCOSS

1/ Includes Bad Debt Expense, Credits & Incentives and Stormwater Subsidy of \$12.4 m.

PITTSBURGH WATER AND SEWER AUTHORITY

Calculation of Actual Stormwater Cost of Service Subsidies
Based on PWSA's Proposed Stormwater Service Rate Design
(FPFTY Test Period Ending December 31, 2022)

<u>Line</u>	<u>Stormwater Service</u>	OSBA Recommended SW COS Excluding SW Subsidy 1/ 1	PWSA Proposed SW Base Rate Revenue 2	Actual SW Subsidy Based on PWSA Rate Design 2/ 3 = 2 - 1
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4	Industrial	304,905	149,541	(155,364)
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6	Municipal - Metered	913,328	551,821	(361,507)
7	Other	1,889,311	1,105,539	(783,772)
8	Total Unadj. Water	<u>\$36,128,349</u>	<u>\$23,729,640</u>	<u>(\$12,398,709)</u>

Corrected
Source: Rerun of PWSA Sch. BK-3SW
SWCOSS

1/ Includes Bad Debt Expense, Credits & Incentives but not the
Stormwater Subsidy of \$12.4 m.

2/ Does not equal \$12.4 m. due to rate design rounding.

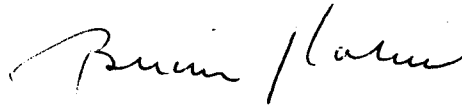
**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :
 :
 : **Docket No. R-2021-3024773**
 v. : **Docket No. R-2021-3024774**
 : **Docket No. R-2021-3024779**
 :
The Pittsburgh Water and Sewer Authority :

VERIFICATION

I, Brian Kalcic, hereby state that the facts set forth in my rebuttal testimony labeled OSBA Statement No. 1-R are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. §4904 (relating to unsworn falsification to authorities).

Date: July 28, 2021



(Signature)

Brian Kalcic

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	:	Docket No. R-2021-3024773 (water)
v.		:	Docket No. R-2021-3024774(wastewater)
		:	Docket No. R-2021-3024779(stormwater)
Pittsburgh Water & Sewer Authority	:		

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email (*unless other noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

Christine M. Hoover, Esq.
Erin L. Gannon, Esq.
Lauren E. Guerra, Esq.
Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101
choover@paoca.org
lguerra@paoca.org
egannon@paoca.org
(*Counsel for OCA*)

The Honorable Eranda Vero
Administrative Law Judge
Pennsylvania Public Utility Commission
Suite 4063, 801 Market Street
Philadelphia, PA 19107
evero@pa.gov

Gina L. Miller, Esq.
Bureau of Investigation and Enforcement
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120
ginmiller@pa.gov
(*Counsel for BIE*)

Peter J. DeMarco, Esq.
Natural Resources Defense Council
1152 15th Street NW, Ste. 300
Washington, DC 20005
Telephone: 202-289-2385
pdemarco@nrdc.org

Thomas J. Sniscak, Esq.
Whitney E. Snyder, Esq.
Kevin J. McKeon, Esq.
Hawke, McKeon & Sniscak LLP
100 North Tenth Street
Harrisburg, PA 17101
tjsniscak@hmslegal.com
wesnyder@hmslegal.com
kjmckeon@hmslegal.com

John F. Doherty, Esq.
Yvonne Hilton, Esq.
Lawrence H. Baumiller, Esq.
City of Pittsburgh Department of Law
313 City-County Building
414 Grant Street
Pittsburgh, PA 15219
yvonne.hilton@pittsburghpa.gov
john.doherty@pittsburghpa.gov
lawrence.baumiller@pittsburghpa.gov

Jared J. Thompson, Esq.
Natural Resources Defense Council
1152 15th Street NW, Ste. 300
Washington, DC 20005
Telephone: (202) 513-6249
jared.thompson@nrdc.org

Daniel Clearfield, Esq.
Deanne M. O'Dell, Esq.
Karen Moury, Esq.
Sarah Stoner, Esq.
Eckert Seamans Cherin & Mellott, LLC
213 Market Street, 8th Floor
Harrisburg, PA 17101
dodell@eckertseamans.com
dclearfield@eckertseamans.com
kmoury@eckertseamans.com
SStoner@eckertseamans.com

Ria M. Pereira, Esquire
Elizabeth R. Marx, Esquire
John W. Sweet, Esquire
Lauren N. Berman, Esquire
Pennsylvania Utility Law Project
118 Locust Street
Harrisburg, PA 17101
pulp@pautilitylawproject.org

/s/ Erin K. Fure

Erin K. Fure
Assistant Small Business Advocate
Attorney ID No. 312245

DATE: July 29, 2021



COMMONWEALTH OF PENNSYLVANIA

August 06, 2021

The Honorable Eranda Vero
Administrative Law Judge
Pennsylvania Public Utility Commission
Suite 4063, 801 Market Street
Philadelphia, PA 19107

Re: Pittsburgh Water and Sewer Authority 2021 Rate Filing / Docket Nos. R-2021-3024773 (water), R-2021-3024774 (wastewater); R-2021-3024779 (stormwater)

Dear Judge Vero:

Enclosed please find the Surrebuttal Testimony and Exhibit of Brian Kalcic, labeled OSBA Statement No. 1-S, on behalf of the Office of Small Business Advocate (“OSBA”), in the above-captioned proceedings.

As evidenced by the enclosed Certificate of Service, all known parties will be served, as indicated.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Erin K. Fure

Erin K. Fure
Assistant Small Business Advocate
Attorney ID No. 312245

Enclosures

cc: PA PUC Secretary Rosemary Chiavetta (Cover Letter & Certificate of Service only)
Brian Kalcic
Parties of Record

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION :
:
:
v. : **Docket No. R-2021-3024773**
:
:
:
PITTSBURGH WATER AND SEWER AUTHORITY :

Surrebuttal Testimony and Exhibit of

BRIAN KALCIC

On Behalf of the

Pennsylvania Office of Small Business Advocate

Topics:

**Class Cost of Service
Stormwater Rates**

Date Served: August 6, 2021

Date Submitted for the Record: _____

Surrebuttal Testimony of Brian Kalcic

1 **Q. Please state your name and business address.**

2 A. Brian Kalcic, 225 S. Meramec Avenue, Suite 720, St. Louis, Missouri 63105.

3

4 **Q. Have you previously submitted testimony in this proceeding?**

5 A. Yes, I have.

6

7 **Q. What is the subject of your surrebuttal testimony?**

8 A. I will respond to the rebuttal testimony submitted by: 1) Harold J. Smith and Keith
9 Readling on behalf of the Authority; 2) Scott J. Rubin and Roger D. Colton, on
10 behalf of the OCA; and 3) Harry Geller on behalf of Pittsburgh UNITED.

11

12 **PWSA Witness Smith**

13 **Q. On page 4 of his rebuttal testimony, Mr. Smith discusses why he opposes the**
14 **OSBA’s proposal to allocate all BDP-CAP program costs to the residential**
15 **class in the Authority’s WCOSS, WWCOSS and SWCOSS. First, Mr. Smith**
16 **argues that “PWSA has always recovered the costs of its BDP-CAP from all**
17 **customers and should be allowed to continue doing so.” What is your**
18 **response?**

19 A. Mr. Smith’s first point is without merit. As I discussed in OSBA Statement No. 1,
20 PWSA initiated its BDP-CAP program on January 1, 2018. Just *three* months later,
21 PWSA came under the jurisdiction of the Commission, and the Authority filed its
22 first base rate case under Commission jurisdiction on July 2, 2018. Prior to this
23 proceeding, PWSA concluded two base rate cases via black box settlements that

1 specifically deferred resolution of the issue of universal service cost recovery to a
2 future proceeding.

3 While it is accurate to state that PWSA has always *advocated* for recovering
4 its BDP-CAP costs from all customer classes, to this point in time, the Commission
5 has never ruled on the issue. In short, PWSA has not actually recovered BDP-CAP
6 costs from all classes except perhaps during the initial year of its BDP-CAP
7 program operation (during which time PWSA had a base rate case pending before
8 the Commission). As such, it is clear that PWSA does not have a long history of
9 allocating BDP-CAP costs to all classes, and the argument that “PWSA has always
10 recovered” its universal service costs from all classes is misleading, if not
11 disingenuous. The Commission should dismiss it.

12
13 **Q. Mr. Smith next argues that BDP-CAP program costs should be recovered from**
14 **all customer classes because such programs constitute public goods that benefit**
15 **the entire Pittsburgh community. Is the fact that a program may provide**
16 **public benefits sufficient justification to recover its associated costs from all**
17 **classes?**

18 A. No. One may reasonably argue that all of the economic energy efficiency programs
19 sponsored by the Commonwealth’s electric distribution companies confer benefits
20 upon the public. Yet, the Commission has consistently directed that the cost of
21 such programs be recovered solely from the class(es) eligible to participate in a
22 given program. Stated differently, in the case of energy efficiency programs, cost
23 responsibility is assigned to the class(es) that receives the *direct* benefits of the

1 program. The same principle, if applied to PWSA's BDP-CAP program, would
2 dictate that the residential class assume responsibility for 100% of CAP costs.

3

4 **Q. Do you have any other comment regarding Mr. Smith's public good**
5 **argument?**

6 A. Yes. The Commission should recognize that PWSA's public good argument is a
7 two-way street. In other words, if BDP-CAP costs should be recovered from local
8 businesses due to the fact businesses rely on a healthy local workforce to keep their
9 businesses running, then it is equally valid to argue that residential customers
10 should subsidize the cost of non-residential utility services, since small businesses
11 provide local residents with public benefits in the form of jobs, income, services
12 within low-income communities etc.

13

14 **Q. Are you advocating that residential customers subsidize small businesses?**

15 A. No. My point is that attempting to factor societal benefits into utility cost allocation
16 decisions is anything but a straightforward process, and would likely result in any
17 number of constituencies seeking special/favorable rate treatment.

18

19 **Q. In support of PWSA's approach to BDP-CAP cost allocation, Mr. Smith also**
20 **notes that the Authority's allocation of BDP-CAP costs to all classes is the**
21 **same approach taken by another regulated municipal utility, Philadelphia Gas**
22 **Works ("PGW"). How do you respond?**

Surrebuttal Testimony of Brian Kalcic

1 A. I would argue that the fact that the Commission approved the recovery of PGW's
2 CAP costs from all classes is irrelevant to this proceeding, due to underlying
3 differences in the operation of the two programs. Counsel advises that PGW had
4 operated its CAP program for many years before becoming regulated by the
5 Commission, with funding provided by all rate classes except Large Industrial
6 during that period. Counsel further advises that the Commission specifically cited
7 to these circumstances when it approved the continuation of PGW's CAP funding
8 approach.

9 In contrast, PWSA does not exhibit a long history of operating its BDP-CAP
10 program before becoming regulated by the Commission. Nor has the Authority's
11 requested universal service budget expanded to the point where its services would
12 be unaffordable for non-CAP customers, if universal service costs were to be
13 recovered solely from residential ratepayers.¹ In short, the Commission should
14 decide the issue of universal service cost recovery for PWSA just as it does for
15 other Commonwealth utilities, i.e., based on the evidence presented in their
16 respective base rate proceedings – not on the basis of how PGW recovers universal
17 service costs.

18
19 **Q. On pages 4-5 of his rebuttal testimony, Mr. Smith discusses your**
20 **recommendation to allocate service line costs separately from transmission and**
21 **distribution mains. In the course of that discussion, Mr. Smith contrasts your**

¹ See OSBA Statement No. 1 at pages 15-16.

1 **recommended approach with that used by PWSA and concludes that “both**
2 **approaches are correct.” Do you agree?**

3 A. I do not. As Mr. Smith indicates, PWSA’s approach allocates service line costs on
4 the basis of class contributions to Base, Maximum Day and Maximum Hour costs,
5 due to the fact that service lines are included with the Authority’s Transmission and
6 Distribution (“T&D”) assets. Consistent with the Base Extra-Capacity (“BEC”)
7 cost methodology, the OSBA’s approach recognizes that service lines are distinct
8 from general T&D assets since service lines are *customer related*. It is not
9 appropriate to allocate customer-related costs to classes on the basis of a utility’s
10 base, maximum day or maximum hour functions when using the BEC methodology.
11 As such, PWSA’s method of allocating service line costs is incorrect.

12

13 **Q. On page 5 of his rebuttal testimony, Mr. Smith discusses PWSA’s Revised**
14 **Supplemental Response to OSBA-II-5, which indicates that the information**
15 **previously provided to the OSBA “is not an accurate reflection of the value of**
16 **PWSA’s service line assets.” As a result, Mr. Smith concludes it is not possible**
17 **to allocate service line costs separately from transmission and distribution**
18 **mains in this proceeding since PWSA does not have an accurate accounting of**
19 **the asset value of its service lines at this time. Do you agree?**

20 A. Reluctantly, I do. I say reluctantly because it took PWSA three attempts (i.e., an
21 *original* response, a *supplemental* response and a *revised supplemental* response)
22 before arriving at the conclusion that it did not possess the service line information
23 that the OSBA requested.

1

2 **Q. Have you therefore removed your recommended service line adjustment from**
3 **the OSBA's recommended WCOSS?**

4 A. I have. Exhibit BK-1S contains revised versions of the three water service
5 schedules that are impacted as a result of removing the OSBA's service line
6 adjustment.

7

8 **Q. Should the Commission direct PWSA to allocate service line costs separately**
9 **from transmission and distribution mains in its next base rate case?**

10 A. Yes. As discussed above, the Authority's current approach to recovering the cost of
11 service lines does not comport with the BEC methodology, and this matter should
12 be addressed as soon as possible.

13

14 **Q. On pages 6 of PWSA Statement No. 4-R, Mr. Smith discusses your proposal to**
15 **recover LSLR costs from all classes on the basis of equivalent meters. Mr.**
16 **Smith disagrees, contending that LSLR costs should be recovered in the same**
17 **manner as other service line costs in PWSA's WCOSS, i.e., on the basis of class**
18 **contributions to Base, Maximum Day and Maximum Hours costs. What is**
19 **your response?**

20 A. My response is the same as before. Service line costs, whether LSLR- or non-
21 LSLR related, are customer related costs, and there is no valid basis for allocating
22 customer-related costs on the basis of a utility's base, maximum day, or maximum
23 hour functions when employing the BEC cost methodology.

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Q. On pages 6-7 of PWSA Statement No. 4-R, Mr. Smith discusses your contention that PWSA’s WWCOSS fails to properly allocate costs associated with infiltration and inflow (“I&I”) to customer classes. In response, Mr. Smith argues that since PWSA has identified the largest component of I&I, namely stormwater inflow, and proposes to recover stormwater-related costs in a new stormwater fee, the Authority has accounted for I&I related costs in a fair and equitable manner. Do you have any comment?

A. Yes. I would simply note that while PWSA has accounted for the largest component of inflow-related costs, it has not generally addressed infiltration costs in its WWCOSS. As such, I continue to recommend that PWSA identify and allocate infiltration-related costs properly in its next rate case.

PWSA Witness Reading

Q. On pages 8-10 of PWSA Statement No. 8-R, Mr. Readling discusses the Authority’s support for its claim for \$700,000 in stormwater credits, which you initially criticized in your direct testimony. Do you find that PWSA has now provided adequate support for its claim in this area?

A. No, I do not. In brief, PWSA continues to argue that its credit program is intended to keep barriers low for customers seeking a credit, in part, by determining program eligibility and credit levels based on properties that meet the 2016 or 2019 City of Pittsburgh stormwater standards. Yet, PWSA has provided no estimate of the number of properties that currently meet either standard, or why it is otherwise

1 reasonable to expect eligible customers to apply for and earn \$700,000 of credits
2 during the first twelve months that such credits are available.

3
4 **Q. On pages 12-13 of PWSA Statement No. 8-R, Mr. Readling discusses your**
5 **recommendation to allocate stormwater costs to classes on the basis of actual**
6 **or measured ERUs rather than billed ERUs. Mr. Readling contends that your**
7 **view is incorrect because PWSA intends to implement *one* stormwater rate per**
8 **ERU that applies to all customer classes. As a result, Mr. Readling concludes**
9 **that “an argument such as Mr. Kalcic’s that costs should be allocated to**
10 **various classes based on actual rather than billed ERUs is not relevant and has**
11 **no impact on either the rate per ERU or the amount that customers of a**
12 **particular class may be charged.” How do you respond?**

13 A. Mr. Readling is confusing rate design with cost allocation. It is true that PWSA’s
14 proposed stormwater rate design would establish a uniform stormwater rate per
15 billed ERU that applies to all customer classes. However, as I discuss on pages 35-
16 37 of OSBA Statement No. 1, the Authority’s *billed* ERUs deviate from *actual*
17 ERUs across customer classes due to PWSA’s proposed stormwater billing
18 structure. State differently, if the Authority’s stormwater costs were to be
19 recovered from customer classes based on the actual amount of measured
20 impervious area within each class, which is the premise underlying PWSA’s
21 SWCOSS, then the stormwater rate per billed ERU would need to vary across
22 customer classes. As it stands, PWSA’s proposed stormwater rate design does not
23 track stormwater cost incurrence across customer classes.

1

2 **Q. If that is the case, why did you accept PWSA’s proposed stormwater rate**
3 **design rather than recommend separate stormwater rates for each customer**
4 **class in your direct testimony?**

5 A. My reasons are discussed in detail on pages 44-46 of OSBA Statement No. 1.

6

7 **OCA Witness Rubin**

8 **Q. On pages 2-4 of OCA Statement 3R, Mr. Rubin discusses your**
9 **recommendation to allocate service line costs separately from transmission and**
10 **distribution mains. While Mr. Rubin agrees that PWSA should separately**
11 **account for service line costs in its WCOSS, he concludes that the information**
12 **provided by PWSA is insufficient to go forward with separating service line**
13 **costs in this proceeding. What is your response?**

14 A. As I previously discussed, based on PWSA’s revised supplemental response to
15 OSBA-II-5, I have excluded this adjustment from the OSBA’s recommended
16 WCOSS.

17

18 **Q. On pages 4-7 of his rebuttal testimony, Mr. Rubin discusses certain types of**
19 **costs that he deems to be un-allocatable from a cost causation perspective. He**
20 **states his agreement with PWSA’s approach of allocating such costs to all**
21 **classes on the basis of unadjusted cost of service, and goes on to criticize your**
22 **recommended allocation methods that deviate from PWSA’s approach. He**
23 **suggests that you have chosen to retain PWSA’s allocation approach when it is**

1 **beneficial to the non-residential classes to do so, while substituting a more**
2 **favorable allocator for program costs that primarily benefit residential**
3 **customers. What is your response?**

4 A. I have several comments. First, Mr. Rubin disagrees with my recommendation to:
5 1) recover PWSA's CAP-related costs solely from residential customers, and 2)
6 allocate lead service line replacement costs to all classes on the basis of equivalent
7 meters, rather than total cost of service. In the case of universal service costs, it is
8 apparent that Mr. Rubin and I have a fundamental disagreement as to how such
9 costs should be recovered. Rather than repeat my arguments in support of
10 recovering universal service costs from residential customers, I would simply note
11 that my position regarding CAP cost recovery has been consistent over each of
12 PWSA's base rate proceedings.

13 With respect to the allocation of lead service line replacement costs, I would
14 refer to my response to Mr. Smith on this topic. However, I would add that to this
15 point in time, PWSA has not replaced a single non-residential lead service line. Yet
16 I recommend allocating over 38% of such costs to non-residential customers in the
17 OSBA's recommended WCOSS.

18 Finally, I would argue that Mr. Rubin's criticism of my "selective"
19 allocation methodologies overlooks the fact that my recommendation to recover
20 stormwater subsidies from wastewater classes on a revenue neutral basis, by
21 customer class, shifts \$1.06 million of revenue responsibility *to* commercial
22 wastewater customers compared to Mr. Rubin's (and PWSA's) preferred allocation

1 methodology.² Certainly, if I had intended to be selective in my acceptance or
2 rejection of PWSA's allocation approaches, I would have seen fit to accept PWSA's
3 method of recovering the proposed \$12.4 million stormwater subsidy from
4 wastewater customers.

5
6 **Q. Finally, on pages 12-13 of OCA Statement 3R, Mr. Rubin discusses your**
7 **recommendation to allocate stormwater costs among customer classes on the**
8 **basis of measured (rather than billable) impervious area. In particular, Mr.**
9 **Rubin objects to your inclusion of properties with less than 400 square feet of**
10 **impervious surface area when calculating measured impervious area, by**
11 **customer class. In Mr. Rubin's view, the lack of precision in PWSA's**
12 **measurement methods suggests that such properties should be excluded from**
13 **both the billing and allocation of stormwater costs. Do you have any**
14 **comments?**

15 A. Yes. I included the impervious area of properties with less than 400 square feet of
16 impervious surface area when allocating PWSA's claimed stormwater costs for the
17 sake of completeness. I would note that the total ERUs attributable to such
18 properties (853) are relatively small compared with total measured ERUs (248,757).
19 As a result, the exclusion of 853 ERUs from the computation of actual measured
20 ERUs would have a negligible impact on the allocation of stormwater costs. That
21 said, I would point out that including the ERUs of properties with less than 400
22 square feet of impervious area is slightly beneficial to residential customers.

² See Table 1-R on page 10 of OCA Statement 3R.

1

2 **OCA Witness Colton**

3 **Q. On page 2 of OCA Statement 4R, Mr. Colton claims that you fail to**
4 **acknowledge Commission long-standing precedent regarding the allocation of**
5 **universal service costs in the case of a regulated municipal utility, i.e.,**
6 **Philadelphia Gas Works (“PGW”). and that it is the OSBA that is proposing a**
7 **change from past practices relating to the allocation of CAP costs. What is**
8 **your response?**

9 A. I would refer to my response to Mr. Smith regarding how PWSA differs from
10 PGW, and why it is incorrect to state that PWSA has a long-standing practice of
11 recovering universal service costs from all customer classes.

12

13 **Q. On pages 9-16 of his rebuttal testimony, Mr. Colton claims that you fail to**
14 **provide an accurate representation of the Commission’s recent decision**
15 **regarding revisiting the allocation of universal service costs for gas and electric**
16 **utilities. Mr. Colton goes on to offer his own views on the Commission’s**
17 **decision. What is your response?**

18 A. Counsel advises that the Commission’s Final CAP Policy Statement and Order at
19 Docket No. M-2019-3012599 speaks for itself, and the OSBA will address the
20 elements of the Commission decision in its briefs.

21

1

2

UNITED Witness Geller

3

Q. On pages 3-6 of his rebuttal testimony, Mr. Geller advocates for the recovery of PWSA's universal service costs from all classes, arguing that while CAP customers may derive direct benefits from universal service programs, such programs also provide important societal benefits that accrue to non-residential ratepayers. What is your response?

4

5

6

7

8

A. I would refer to my response to Mr. Smith regarding why the claim that universal service programs provide public benefits is insufficient justification for recovering universal service costs from all classes.

9

10

11

12

Q. Does this conclude your surrebuttal testimony?

13

A. Yes.

EXHIBIT BK-1S

SCHEDULE BK-1W-S

SCHEDULE BK-2W-S

SCHEDULE BK-4W-S

PITTSBURGH WATER AND SEWER AUTHORITY

Comparison of Unadjusted Water Cost-of-Service Results
at PWSA's Claimed Water Service Revenue Requirement
(FPFTY Test Period Ending December 31, 2022)

<u>Line</u>	<u>Water Service</u>	PWSA Unadj. Water Cost of <u>Service 1/</u> 1	PWSA Unadj. WCOSS with Service Lines Breakout (Non- <u>LSLR Related</u>) 2	PWSA WCOSS with No Serv. Lines Breakout, Re- Allocated LSLR Costs, and CAP <u>Admin. to Res.</u> 3	Cumulative Difference in Allocated <u>COS</u> 4 = 3 - 1
1	Residential	\$44,486,071		\$46,141,749	\$1,655,678
2	Residential - CAP	2,760,875		2,849,191	88,316
3	Commercial	47,574,460		47,064,162	(510,298)
4	Industrial	3,488,218		3,391,052	(97,166)
5	Health / Education	19,186,042		18,719,415	(466,627)
6	Municipal - Metered	3,331,434		3,236,508	(94,926)
7	Municipal - Unmetered	730,698		720,336	(10,362)
8	Private Fire Service	596,126		790,377	194,251
9	Public Fire Service	6,980,285		6,554,500	(425,785)
10	Wholesale	9,889,027		9,555,946	(333,081)
11	Total Unadj. Water	<u>\$139,023,236</u>		<u>\$139,023,236</u>	<u>\$0</u>

Source: Exh. HJS-10W

Rerun of PWSA
WCOSS

1/ Excludes Bad Debt Expense.

PITTSBURGH WATER AND SEWER AUTHORITY

Comparison of Adjusted Water Cost of Service Results
 at PWSA's Claimed Water Service Revenue Requirement
(FPFTY Test Period Ending December 31, 2022)

<u>Line</u>	<u>Water Service</u>	PWSA Adj. Water Cost of <u>Service 1/</u> 1	OSBA Adjusted Water Cost of <u>Service</u> 2	Difference in Adjusted Revenue <u>Requirements</u> 3 = 2 - 1
1	Residential	\$53,973,946	\$56,552,141	\$2,578,195
2	Residential - CAP	1,726,609	1,441,410	(\$285,199)
3	Commercial	53,918,842	52,417,509	(\$1,501,333)
4	Industrial	3,185,114	3,241,157	\$56,043
5	Health / Education	21,344,471	20,472,786	(\$871,685)
6	Municipal - Metered	2,228,711	2,130,561	(\$98,150)
7	Municipal - Unmetered	-	-	\$0
8	Private Fire Service	886,071	1,072,067	\$185,996
9	Public Fire Service	1,047,195	983,328	(\$63,867)
10	Wholesale	3,690,132	3,690,132	\$0
11	Total Unadj. Water	<u>\$142,001,091</u>	<u>\$142,001,091</u>	<u>\$0</u>

Source: Exh. HJS-10W

Rerun of PWSA
 WCOSS

1/ Includes Bad Debt Expense.

PITTSBURGH WATER AND SEWER AUTHORITY

OSBA Recommended Allocation of PWSA's
Requested Increase in Base Rate Water Service Revenues
(FPFTY Test Period Ending December 31, 2022)

<u>Line</u>	<u>Classification</u>	Present Base Revenue 1	OSBA Recomm. Base Revenue 2	Recommended Increase	
				Amount 3 = 2 - 1	Percent 4
1	Residential	\$46,544,538	\$56,558,963	\$10,014,425	21.5%
2	Residential - CAP	\$1,503,111	\$1,442,183	(\$60,928)	-4.1%
3	Commercial	\$43,394,031	\$52,535,639	\$9,141,608	21.1%
4	Industrial	\$2,504,864	\$3,242,258	\$737,394	29.4%
5	Health / Education	\$18,464,668	\$20,473,668	\$2,009,000	10.9%
6	Municipal - Metered	\$1,688,158	\$2,033,666	\$345,508	20.5%
7	Municipal - Unmetered	\$0	\$0	\$0	-
8	Private Fire Service	\$896,243	\$1,072,175	\$175,932	19.6%
9	Public Fire Service	<u>\$509,042</u>	\$982,947	\$473,905	-
10	Subtotal	\$115,504,655	\$138,341,499	\$22,836,844	19.8%
11	Wholesale & Contract	\$3,192,713	\$3,690,132	\$497,419	15.6%
12	Other Revenue	\$1,439,417	\$1,439,417	\$0	0.0%
13	DSIC	<u>\$5,749,781</u>	<u>\$6,867,928</u>	\$1,118,147	19.4%
14	TOTAL	<u>\$125,886,566</u>	<u>\$143,471,048</u>	<u>\$24,452,410</u>	19.4%

Source: Sch. HJS-15W

\$24,418,500 Target
\$33,910 Difference

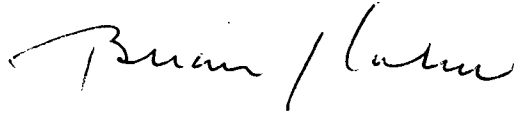
**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :
: **Docket No. R-2021-3024773**
v. : **Docket No. R-2021-3024774**
: **Docket No. R-2021-3024779**
:
The Pittsburgh Water and Sewer Authority :

VERIFICATION

I, Brian Kalcic, hereby state that the facts set forth in my surrebuttal testimony labeled OSBA Statement No. 1-S are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. §4904 (relating to unsworn falsification to authorities).

Date: August 5, 2021



(Signature)

Brian Kalcic

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :
: **Docket No. R-2021-3024773 (water)**
v. : **Docket No. R-2021-3024774(wastewater)**
: **Docket No. R-2021-3024779(stormwater)**
Pittsburgh Water & Sewer Authority :

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email (*unless other noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

Christine M. Hoover, Esq.
Erin L. Gannon, Esq.
Lauren E. Guerra, Esq.
Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101
choover@paoca.org
lguerra@paoca.org
egannon@paoca.org
(*Counsel for OCA*)

The Honorable Eranda Vero
Administrative Law Judge
Pennsylvania Public Utility Commission
Suite 4063, 801 Market Street
Philadelphia, PA 19107
evero@pa.gov

Gina L. Miller, Esq.
Bureau of Investigation and Enforcement
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120
ginmiller@pa.gov
(*Counsel for BIE*)

Peter J. DeMarco, Esq.
Natural Resources Defense Council
1152 15th Street NW, Ste. 300
Washington, DC 20005
Telephone: 202-289-2385
pdemarco@nrdc.org

Thomas J. Sniscak, Esq.
Whitney E. Snyder, Esq.
Kevin J. MKeon, Esq.
Hawke, McKeon & Sniscak LLP
100 North Tenth Street
Harrisburg, PA 17101
tjsniscak@hmslegal.com
wesnyder@hmslegal.com
kjmckeon@hmslegal.com

John F. Doherty, Esq.
Yvonne Hilton, Esq.
Lawrence H. Baumiller, Esq.
City of Pittsburgh Department of Law
313 City-County Building
414 Grant Street
Pittsburgh, PA 15219
yvonne.hilton@pittsburghpa.gov
john.doherty@pittsburghpa.gov
lawrence.baumiller@pittsburghpa.gov

Jared J. Thompson, Esq.
Natural Resources Defense Council
1152 15th Street NW, Ste. 300
Washington, DC 20005
Telephone: (202) 513-6249
jared.thompson@nrdc.org

Daniel Clearfield, Esq.
Deanne M. O'Dell, Esq.
Karen Moury, Esq.
Sarah Stoner, Esq.
Eckert Seamans Cherin & Mellott, LLC
213 Market Street, 8th Floor
Harrisburg, PA 17101
dodell@eckertseamans.com
dclearfield@eckertseamans.com
kmoury@eckertseamans.com
SStoner@eckertseamans.com

Ria M. Pereira, Esquire
Elizabeth R. Marx, Esquire
John W. Sweet, Esquire
Lauren N. Berman, Esquire
Pennsylvania Utility Law Project
118 Locust Street
Harrisburg, PA 17101
pulp@pautilitylawproject.org

/s/ Erin K. Fure

Erin K. Fure
Assistant Small Business Advocate
Attorney ID No. 312245

DATE: August 6, 2021

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	Docket No. R-2021-3024773 (water)
v.	:	Docket No. R-2021-3024774(wastewater)
	:	Docket No. R-2021-3024779(stormwater)
Pittsburgh Water & Sewer Authority	:	

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Christine M. Hoover, Esq.
Erin L. Gannon, Esq.
Lauren E. Guerra, Esq.
Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101
choover@paoca.org
lguerra@paoca.org
egannon@paoca.org
(Counsel for OCA)

The Honorable Eranda Vero
Administrative Law Judge
Pennsylvania Public Utility Commission
Suite 4063, 801 Market Street
Philadelphia, PA 19107
evero@pa.gov

Gina L. Miller, Esq.
Bureau of Investigation and Enforcement
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120
ginmiller@pa.gov
(Counsel for BIE)

Peter J. DeMarco, Esq.
Natural Resources Defense Council
1152 15th Street NW, Ste. 300
Washington, DC 20005
Telephone: 202-289-2385
pdemarco@nrdc.org

Thomas J. Sniscak, Esq.
Whitney E. Snyder, Esq.
Kevin J. MKeon, Esq.
Hawke, McKeon & Sniscak LLP
100 North Tenth Street
Harrisburg, PA 17101
tjsniscak@hmslegal.com
wesnyder@hmslegal.com
kjmckeon@hmslegal.com

John F. Doherty, Esq.
Yvonne Hilton, Esq.
Lawrence H. Baumiller, Esq.
City of Pittsburgh Department of Law
313 City-County Building
414 Grant Street
Pittsburgh, PA 15219
yvonne.hilton@pittsburghpa.gov
john.doherty@pittsburghpa.gov
lawrence.baumiller@pittsburghpa.gov

Jared J. Thompson, Esq.
Natural Resources Defense Council
1152 15th Street NW, Ste. 300
Washington, DC 20005
Telephone: (202) 513-6249
jared.thompson@nrdc.org

Daniel Clearfield, Esq.
Deanne M. O'Dell, Esq.
Karen Moury, Esq.
Sarah Stoner, Esq.
Eckert Seamans Cherin & Mellott, LLC
213 Market Street, 8th Floor
Harrisburg, PA 17101
dodell@eckertseamans.com
dclearfield@eckertseamans.com
kmoury@eckertseamans.com
SStoner@eckertseamans.com

Ria M. Pereira, Esquire
Elizabeth R. Marx, Esquire
John W. Sweet, Esquire
Lauren N. Berman, Esquire
Pennsylvania Utility Law Project
118 Locust Street
Harrisburg, PA 17101
pulp@pautilitylawproject.org

/s/ Erin K. Fure

Erin K. Fure
Assistant Small Business Advocate
Attorney ID No. 312245

DATE: August 27, 2021